Media Release

Sonova reports substantial acceleration and strong fiscal year

***Stäfa (Switzerland), May 16, 2017* – Sonova Holding AG, the world's leading provider of hearing solutions, announces today that the Group continued to build on its solid performance history and delivered a strong set of results in 2016/17. Consolidated sales reached CHF 2,395.7 million, an increase of 15.3% in local currencies or 15.6% in Swiss francs. This was driven both by organic growth across all businesses and by acquisitions, particularly the effect of the AudioNova consolidation for seven months. Organic growth accelerated significantly over the course of the year, driven by the successful introduction of innovative new products. Normalized for one-time costs Group EBITA reached CHF 481.4 million, representing an increase of 12.1% in local currencies and 11.8% in Swiss francs. This marks another year where Sonova made great strides in its transformation to a vertically integrated business model and continued on its strong and sustained path of profitable growth.**

Highlights

- Group sales of CHF 2,395.7 – up 15.3% in local currencies and 15.6% in Swiss francs
- Normalized EBITA of CHF 481.4 million – up 12.1% in local currencies and 11.8% in Swiss francs
- Hearing instruments segment – sales of CHF 2,190.3 million, up 15.9% in local currencies
- Cochlear implants segment – sales of CHF 205.4 million, up 9.6% in local currencies
- Operating free cash flow reached CHF 424.8 million – up 23.4%
- Proposed dividend of CHF 2.30 per share – increase of 9.5%, normalized payout ratio of 41%
- Outlook for FY 2017/18 – consolidated sales anticipated to grow by 10% to 12% and normalized EBITA to rise by 10% to 14%, both measured in local currencies

Lukas Braunschweiler, CEO of Sonova, says: "Today's results and our strong track record are further evidence of the successful execution of the Group's strategy and transformation to a fully integrated business model. With the acquisition of AudioNova, we achieved another major milestone on this journey. At the same time, we vigorously continued to set new industry and technology standards including the introduction of an extensive portfolio of rechargeable hearing solutions across all our product brands. Particularly well received by our customers was the Phonak Audéo™ B-R, our first hearing aid based on innovative lithium-ion technology. We are further building on our leadership and 70-year history of innovation with the soon to be launched new 2.4 GHz wireless technology, which will support, among other things, unparalleled direct connectivity with Bluetooth® enabled mobile and smartphones. I am therefore convinced that we are well-placed for the continued success of the Group."

Solid organic growth further boosted by strategic acquisitions

Sonova Group sales in 2016/17 grew by 15.3% in local currencies and 15.6% in reported Swiss francs to CHF 2,395.7 million. Organic growth was 4.3%, driven both by the hearing instruments and cochlear implants segments, and saw a marked acceleration over the course of the year. Exchange rate fluctuations had a minimal impact, adding just 0.3% to the reported growth rate. The sales increase was strongly supported by acquisitions made in the reporting period, as well as annualizations of prior year acquisitions. In total, acquisitions added CHF 244.6 million or 11.8% to the increase, mainly stemming from the acquisition of AudioNova, effective September 2016. Prior year business disposals reduced growth by 0.8%.

Strong momentum driven by Europe

Sales in EMEA (Europe, Middle East, and Africa), the largest region with 48% of Group sales, increased 33.8% in local currencies. A solid organic sales increase in both segments was further boosted by acquisitions, in particular AudioNova. Good progress was achieved in major European markets including the UK, the Nordics, France, and Italy. The development of our hearing instruments business was negatively affected by expected reactions from wholesale customers, mainly in Germany, following the announcement of the AudioNova acquisition in May 2016; these were mainly felt during the first half of the financial year. The cochlear implants business achieved strong progress throughout the year.

The Group’s business in the United States, representing 33% of total sales, accelerated in the second half of the year, resulting in a sales increase of 1.0% in local currency. Growth in the hearing instruments segment was driven by the Phonak brand, which benefited from the highly successful introduction of new products. This was partially offset by a decline at Unitron ahead of a new platform introduction towards the end of the fiscal year, along with no growth in our US retail network, which is undergoing a streamlining program. The cochlear implants business maintained strong momentum throughout the year, achieving a double digit sales increase. The rest of the Americas (excluding the US), which represented 9% of total sales, reported a sales increase of 3.8% in local currencies. Solid overall performance was partly offset by a targeted reduction of low-margin government tender business in Brazil and a sales decline at Unitron Canada.

Accounting for 10% of Group sales, the Asia/Pacific region achieved a sales increase of 2.0% in local currencies. This in part reflects the demanding base level set after the exceptional sales increase achieved in the prior year. Australia, New Zealand, and Japan showed solid growth, while China and India saw a refocusing on higher-margin business, resulting in targeted reductions in certain channels.

Business transformation affecting the cost structure

Reported gross profit reached CHF 1,651.8 million, an increase of 20.1% both in local currencies and reported Swiss francs. Gross profit margin was 68.9%, up strongly from 66.4% in the prior year. The gross profit margin was lifted by a solid organic increase and the effect of an increased share of retail revenues with higher gross margin arising from the acquisition of AudioNova.

Reported operating expenses, including other operating income, reached CHF 1,188.8 million (2015/16: CHF 944.8 million). This includes CHF 18.4 million in one-time costs in connection with the AudioNova acquisition, which related to transaction as well as restructuring costs. Where relevant, we refer to figures normalized for such one-time costs. Normalized operating expenses in local currencies rose by 23.7% or by 23.9% in Swiss francs to CHF 1,170.3 million, mainly driven by the acquisition of AudioNova.

Underpinning its commitment to innovation, the Group maintained its high level of investment in research and development (R & D) with R & D expenses reaching CHF 137.1 million, an increase of 5.3% in local currencies. Due to the increased relative share of the retail business after the acquisition of AudioNova, R & D as a percentage of sales declined from 6.3% to 5.7%.

Both sales and marketing as well as general and administrative (G & A) costs showed a significant increase as a result of the AudioNova acquisition, which led to higher cost ratios as a percentage of sales compared to the prior year. Normalized sales and marketing costs were up 26.9% in local currencies to CHF 811.0 million. As a percentage of sales, normalized sales and marketing expenses rose to 33.9%, compared to 30.8% in the prior year. Normalized G & A costs increased by 17.3% in local currencies to CHF 228.5 million. As a percentage of sales, normalized G & A costs were stable at 9.5% (2015/16: 9.4%).

Other income amounted to CHF 6.3 million, down from CHF 17.9 million in the prior year. A CHF 37.4 million provision release for cochlear implant product liabilities that resulted from a better than expected development in related claims was broadly offset by costs of CHF 35.6 million stemming from the impairment of previously capitalized development costs. The latter was the result of changes in the development roadmap, specifically the decision to skip directly to our new 2.4 GHz platform for our cochlear implant sound processor technology. Furthermore, the current year figure includes a CHF 3.9 million capital gain from the sale of non-core retail activities in France. During the 2015/16 financial year, other income included a capital gain of CHF 8.7 million from divestments, mainly consisting of our previous Italian retail business, and a CHF 8.8 million release from a provision for cochlear implant product liabilities.

Reported operating profit before acquisition-related amortization (EBITA) was CHF 463.0 million (2015/16: CHF 430.6 million), an increase of 7.9% in local currencies or 7.5% in Swiss francs from the prior year. Reported EBITA margin reached 19.3% (2015/16: 20.8%). For the year under review, exchange rate development had a minimal impact on the reported EBITA margin. Normalized for one-time costs, EBITA increased by 12.1% in local currencies or 11.8% in Swiss francs to CHF 481.4 million, corresponding to a margin of 20.1%. Reported operating profit (EBIT) reached CHF 423.7 million, compared to CHF 403.4 million for the prior year, up by 5.0%, reflecting the growth in reported EBITA and an expected increase in acquisition related amortization.

Earnings per share
Net financial expenses, including the result from associates, was stable at CHF 6.3 million (2015/16 CHF 6.4 million). Income taxes for the financial year totaled CHF 61.2 million, up from CHF 51.2 million in 2015/16, and representing an effective tax rate of 14.7%, compared to 12.9% in the prior year. The increase in the tax rate reflects a higher legacy tax rate at the acquired AudioNova entities; the effect is temporary until the acquired businesses are fully integrated into the Sonova group structures. Reported income after taxes was CHF 356.2 million, up 3.0% from the previous year. Basic earnings per share (EPS) therefore reached CHF 5.35 (2015/16: CHF 5.11), an increase of 4.7% from the previous year. Normalized for one-time costs, EPS increased 9.2% to CHF 5.58.

Workforce increases to 14,089
At the end of the 2016/17 financial year, the Group’s total workforce stood at 14,089 full-time equivalents – an increase of 3,195 over the previous year. This growth comes mainly from the acquisition of AudioNova. Our manufacturing work force also increased at the Vietnam operation center, where we expanded the capacity of our production facility.

Hearing instruments segment – Growth from new products and acquisitions
Sales in the hearing instruments segment reached CHF 2,190.3 million, representing an increase of 15.9% in local currencies and 16.2% in reported Swiss francs. Organic growth was 3.8% in local currencies, supplemented by 12.1% or CHF 227.1 million from acquisitions net of disposals. The bulk of this came from the acquisition of AudioNova. Organic growth in the second half accelerated significantly with several successful new product launches, in particular the introduction of the rechargeable Phonak Audéo™ B product.

All hearing instrument product categories achieved solid double-digit growth in local currencies. The acquisition of AudioNova did not result in a significant shift of the product mix. Wireless communication systems were up 14.9% in local currencies, almost exclusively from organic growth. This marks the third consecutive year with double digit growth, reflecting a continued strong market response to our innovative solutions for school and workplace use. Sales in the “miscellaneous” product category increased by 24.9% in local currencies, largely driven by AudioNova. This category includes accessories, batteries, and services.

The hearing instruments business, which includes sales to independent audiologists, retail chains, multinational and government customers, but excludes our own retail business, grew 2.8% in local currencies to CHF 1,311.2 million. Sales saw a marked acceleration in the second half, driven by the successful introduction of Phonak Audéo™ B in September 2016. Specifically, the rechargeable version, based on innovative lithium-ion technology, resulted in market-beating demand in the US and key European markets. The rechargeable technology product range was further broadened by the launch of the same feature in the Phonak Bolero™ product family in February 2017. Growth in Europe was strong, despite an expected headwind from independent customers in Germany after the announcement of the AudioNova acquisition in May 2016. Phonak in the US and Canada grew strongly across the main channels and we also increased market share in our business with the US Department of Veterans Affairs (VA). An updated product offering at Costco was very well received and contributed to strong growth in the second half-year. This was partially offset by a decline at Unitron in both countries, where the product portfolio was coming to the end of its current product cycle ahead of the introduction of the new Tempus platform in March/April 2017. With the exception of China and India, the Asia/Pacific region continued its growth trajectory with strong increases in Australia, Japan, and Korea. In China and India, the Group has proactively reduced its exposure to low-margin business.

The retail business, consisting of over 3,300 Sonova owned points of sale in 12 key markets, increased sales by 42.7% in local currencies to CHF 879.1 million. Good organic growth across Europe was supplemented by the acquisition of AudioNova and a number of smaller chains in several countries, thereby further extending our market-leading position across the region. Boots Hearingcare continued on its long term growth trajectory supported by new product introductions. The retail market environment in the US remained challenging and the business could not grow beyond the prior year's result. The US network is undergoing a further streamlining and productivity improvement. Canada and Asia/Pacific continued to perform strongly. AudioNova was consolidated from September 2016. The integration of the business is well on track and did not affect day-to-day retail business. Geers in Germany kept up its strong growth record, expanding on its leading position in the market. AudioNova in the Netherlands initiated a restructuring program to adjust the store network and cost structure to recent changes in the reimbursement conditions. In a successive transaction, the AudioNova business in France was sold effective March 1, 2017. Effective April 1, 2017, AudioNova's Portuguese business was also sold to the same buyer. This transaction will appear in the accounts for the 2017/18 financial year.

Reported EBITA for the hearing instruments segment amounted to CHF 455.0 million, up 6.0% in local currencies. The normalized EBITA for the hearing instruments segment increased by 10.3% in local currencies to CHF 473.4 million, corresponding to an EBITA margin of 21.6%. The EBITA margin development in the ongoing business was positive through a strong focus on managing operating costs and achieving additional efficiency and scale in manufacturing. The acquisition of AudioNova and other retail businesses, with its resulting higher relative share of retail revenues, negatively affected the margin. This was partially offset by a CHF 3.9 million capital gain from the sale of AudioNova France. In the prior year, reported EBITA included a capital gain of CHF 8.7 million from the sale of two non-core businesses, partly offset by a CHF 2.3 million foreign exchange loss on working capital.

Cochlear implants segment – Accelerating in the second half
After a good first half, the cochlear implants business continued to build momentum in the second half of the year. Total sales were CHF 205.4 million, an increase of 9.6% in local currencies and 9.8% in reported Swiss francs.

Double digit new systems sales growth across North America and the EMEA region was driven by an attractive product portfolio and new product introductions in the second half-year, including the new HiRes™ Ultra implant. This was partially offset by slower growth in Latin America and the Asia/Pacific region. Upgrade sales to existing users were held back by a decline in the first half-year, largely related to a smaller qualifying customer base eligible for insurance funded replacement of their sound processors. Increasing at a double-digit rate, upgrade sales recovered strongly in the second half of the year.

EBITA increased to CHF 8.0 million, compared to a break-even result in the prior year, reflecting good operating leverage and strict cost management. CHF 35.6 million in capitalized development costs were impaired as a result of changes in the development roadmap, specifically the decision to skip directly to our new 2.4 GHz platform for the sound processor technology in cochlear implants. This cost was offset by a CHF 37.4 million provision release for cochlear implant product liabilities that resulted from a better than expected development in related claims. The assessment of both of these items is based on a regular systematic review. In summary, this resulted in a net benefit of CHF 1.8 million, which was reflected in the reported EBITA.

Strong operating free cash flow
Cash flow from operating activities reached CHF 522.4 million, compared to CHF 428.4 million in the prior year. Investments in tangible and intangible assets increased by CHF 15.2 million or 18.3% to CHF 98.2 million, resulting in a strong operating free cash flow of CHF 424.8 million, up by 23.4% or CHF 80.6 million. Cash consideration for acquisitions amounted to CHF 675.3 million, compared to 121.3 million in the prior year. The increase is mainly caused by the AudioNova acquisition, with its gross purchase price of CHF 921.2 million and acquired debt of CHF 290.8 million. The cash inflow from divestments amounted to CHF 17.8 million as against CHF 29.6 million in the prior year. In summary, this resulted in a negative free cash flow of CHF 232.6 million, compared to a positive free cash flow of CHF 252.6 million in the prior year.

The cash inflow from financing activities in the 2016/17 financial year was CHF 290.5 million, compared to a cash outflow of CHF 325.6 million in the prior year. This reflects an increase in net borrowings by CHF 468.9 million, mainly consisting of the bond issue related to the financing of the AudioNova acquisition. Cash spent under the share buy-back program decreased significantly to CHF 11.8 million (2015/16: CHF 155.6 million) as a result of the suspension of the program following the announcement of the acquisition of AudioNova in May 2016. In the 2016/17 financial year, a net amount of CHF 20.8 million was spent on the purchase of treasury shares to support equity-based compensation plans, compared to CHF 19.7 million in the prior year. The cash outflow from financing also reflects dividend payments of CHF 137.2 million.

Balance sheet remains strong
Reported net working capital was CHF 169.7 million, compared to CHF 185.5 million at the end of the prior year, reflecting a strong focus on working capital management. Capital employed was CHF 2,535.9 million, compared to CHF 1,608.0 million in the prior year; the increase was largely driven by the acquisition of AudioNova. The Group’s equity position amounted to CHF 2,131.3 million, resulting in a solid equity ratio of 54.2%. The net debt position stood at CHF 404.6 million, compared to a net cash position of CHF 298.3 million the end of the prior year. As a result of acquisitions, the return on capital employed (ROCE) experienced an expected decrease to 20.4%, compared to 26.0% in the prior year.

In light of the continued strong operating free cash flow of the Sonova Group, as well as its healthy financial position, the Board of Directors will propose to the Annual General Shareholders’ Meeting on June 13, 2017 a dividend of CHF 2.30. This proposed distribution is up 9.5% over the prior year, and represents a stable payout ratio, normalized for one-time cost, of 41% (reported: 43%).

Outlook 2017/18
We expect to achieve continued solid growth in sales and profitability in both the hearing instruments and cochlear implants segments during 2017/18. The development will be supported by our attractive product and solutions portfolio as well as our continued commitment to innovation. Coupled with the annualization of prior year acquisitions, in particular AudioNova, we expect overall sales to grow in the range of 10%-12% in local currencies. Before one-time costs related to AudioNova in both the 2016/17 and 2017/18 financial years, we expect a corresponding increase in the EBITA of 10%-14% in local currencies.

Our online Annual Report 2016/17 is available at:
http://report.sonova.com/2017

The Annual Report 2016/17 is available on our website at:
http://www.sonova.com/en/investors/reporting/financial

The presentation of the Full-Year Results 2016/17 can be downloaded at:
http://www.sonova.com/en/investors/presentations

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Key Figures Sonova Group (consolidated)

in 1,000 CHF unless otherwise specified	Normalized performance 2016/17[1]	Reported performance 2016/17	2015/16
Sales	**2,395,650**	**2,395,650**	**2,071,930**
change compared to previous year (%)	15.6	15.6	1.8
Gross profit	**1,651,752**	**1,651,752**	**1,375,468**
change compared to previous year (%)	20.1	20.1	(0.9)
in % of sales	68.9	68.9	66.4
Research & development costs	**137,134**	**137,134**	**130,255**
in % of sales	5.7	5.7	6.3
Sales & marketing costs	**810,988**	**815,018**	**638,240**
in % of sales	33.9	34.0	30.8
Operating profit before acquisition-related amortization and impairment (EBITA)	**481,441**	**462,998**	**430,632**
change compared to previous year (%)	11.8	7.5	(5.5)
in % of sales	20.1	19.3	20.8
Operating profit (EBIT)	**442,120**	**423,677**	**403,437**
change compared to previous year (%)	9.6	5.0	(6.0)
in % of sales	18.5	17.7	19.5
Income after taxes	**371,484**	**356,176**	**345,847**
change compared to previous year (%)	7.4	3.0	(6.1)
in % of sales	15.5	14.9	16.7
Basic earnings per share (CHF)	5.58	5.35	5.11
Dividend/distribution per share (CHF)	2.30[10]	2.30[10]	2.10
Net cash[2]	**(404,634)**	**(404,634)**	**298,274**
Net working capital[3]	**169,706**	**169,706**	**185,459**
Capital expenditure (tangible and intangible assets)[4]	**97,120**	**97,120**	**83,051**
Capital employed[5]	**2,535,906**	**2,535,906**	**1,607,992**
Total assets	**3,935,680**	**3,935,680**	**2,751,611**
Equity	**2,131,272**	**2,131,272**	**1,906,266**
Equity financing ratio (%)[6]	**54.2**	**54.2**	**69.3**
Free cash flow[7]	**(232,615)**	**(232,615)**	**252,573**
Operating free cash flow[8]	**424,847**	**424,847**	**344,212**
in % of sales	17.7	17.7	16.6
Return on capital employed (%)[9]	20.4	20.4	26.0
Number of employees (average)	**12,802**	**12,802**	**10,697**
change compared to previous year (%)	19.7	19.7	7.4
Number of employees (end of period)	**14,089**	**14,089**	**10,894**
change compared to previous year (%)	29.3	29.3	7.0

[1] Excluding one-time costs of CHF 18.4 million, consisting of transaction cost and integration related restructuring costs in connection with the acquisition of AudioNova. Balance sheet related key figures (including respective ratios) as reported.
[2] Cash and cash equivalents + other current financial assets (without loans) – current financial liabilities – non-current financial liabilities.
[3] Receivables (incl. loans) + inventories – trade payables – current income tax liabilities – other short-term liabilities – short-term provisions.
[4] Excluding goodwill and intangibles relating to acquisitions.
[5] Equity – net cash.
[6] Equity in % of total assets.
[7] Cash flow from operating activities + cash flow from investing activities.
[8] Free cash flow – cash consideration for acquisitions and from divestments, net of cash acquired/divested.
[9] EBIT in % of capital employed (average).
[10] Proposal to the Annual General Shareholders' Meeting of June 13, 2017.

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About Sonova
Sonova, headquartered in Stäfa, Switzerland, is the leading provider of innovative hearing care solutions. The Group operates through its core business brands Phonak, Unitron, Hansaton, Advanced Bionics and AudioNova. Sonova offers its customers one of the most comprehensive product portfolios in the industry – from hearing instruments to cochlear implants to wireless communication solutions. Founded in 1947, the Group is currently present in over 100 countries across the globe and has a workforce of over 14,000 dedicated employees. Sonova generated sales of CHF 2.4 billion in the financial year 2016/17 and a net profit of CHF 356 million. Across all businesses, and by supporting the Hear the World Foundation, Sonova pursues its vision of a world where everyone enjoys the delight of hearing and therefore lives a life without limitations.

For more information please visit www.sonova.com and www.hear-the-world.com.

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