



Letter to shareholders

Dear shareholders,

2018/19 marked another year of solid financial performance, posting further record levels of sales and profits to which all three businesses contributed. Moreover – and as expected – growth accelerated from the first half-year to the second, driven by the launch of a number of innovative products and solutions.

Sonova affirmed its leading position in audiological performance with the release of the Marvel™ technology platform. Marvel takes full advantage of the unique connectivity enabled by our SWORD™ (Sonova Wireless One Radio Digital) chip and combines it with the proven convenience of our rechargeable solutions.

We also made significant progress in our retail business, which we have renamed “audiological care” for one simple reason: care is what we deliver. The expert service provided by our hearing care professionals adds key value for the consumer.

Our cochlear implants business launched a series of innovative new products to strengthen its leading position in this expanding market.

You will find details of these and other strategic initiatives in the “strategy and businesses” section of this report.

The global market in which we operate is poised for further growth, as developed countries see increasing demand from the “baby boomer” generation and developing countries begin to bridge the gap in hearing care provision. Our vertically integrated business model – covering every step from R&D, through manufacturing, all the way to the consumer – gives us the breadth and depth to thrive in a fast-evolving global environment. Our growth strategy emphasizes innovation and audiological performance, expansion of our differentiated audiological care network, and investment in high-growth developing markets. At the same time, we sustain profitability growth by extending our multi-channel distribution partnerships, and driving continuous structural and operational improvements.

As in previous years, we would also like to give you some specific examples of how we are implementing our strategy locally in one of our key markets: The [feature story](#) this year describes our business in France.

We have made significant progress in implementing our strategy.

Robert Spoerry

Success combines clear strategy with effective execution, and both depend on employee engagement. We already have a strong tradition of innovation and consumer awareness, and we are building on this to foster a company culture, where growth mindedness, commercial execution, collaboration, and personal initiative are key. This year we conducted our first global employee survey, HearMe; around 90% of employees participated, providing valuable information about ways we can boost collaboration across the Group. The first resulting initiatives have already been implemented, aiming to release untapped potential, identify key drivers of employee engagement, encourage effective leadership at all levels, and thus stimulate professional growth and business success.

Hearing instruments segment

The hearing instruments segment saw a further rise in sales of 3.9% in local currencies; the increase was driven by organic growth, while the net impact of acquisitions and divestments made at the beginning of the year slightly reduced growth. Both the hearing instruments and audiological care businesses contributed to sales growth.

A key highlight in the hearing instruments business was the launch of the Phonak Marvel product platform, which helped to accelerate sales growth in the second half-year. Marvel delivers exceptional sound quality from the first fit¹ – hence our slogan, “Love at first sound” – while improving speech understanding in the most difficult listening situations. It benefits from new connectivity solutions, further exploiting the capabilities of our SWORD chip: Consumers can make hands-free phone calls, stream music from electronic devices, and benefit from a wide range of life-enhancing apps. Combined with our proven rechargeable technology, the new platform is a true multifunctional marvel. The market reaction is very positive, reflecting the step-change that Marvel represents in the lives of consumers.

The audiological care business also contributed strongly to positive results this year. The highly-trained hearing care professionals in our international network deliver advanced audiological services and form an integral part of Sonova’s strategy to expand direct consumer access. We have now completed the integration of AudioNova and created a strong platform for future growth.

We successfully addressed the challenges we faced in individual markets such as the US and Netherlands. In the US, we streamlined and reconfigured our store network with a bigger focus on the Sun Belt, where our highest consumer concentration is found. In the Netherlands, we optimized our store network while simultaneously introducing a new flagship store concept. This year’s same-store sales growth in both markets confirmed the success of these initiatives. We have also made good use of our strongest brand by introducing Phonak Marvel throughout our own global network and supporting the launch with dedicated marketing campaigns, including television advertising.

Cochlear implants segment

Our cochlear implants segment generated another year of solid growth, with sales up 6.3% in local currencies. Much of this rise was from new system sales, which is a reliable indicator of the competitiveness of our product range. We also made significant progress in profitability.

Advanced Bionics further expanded its range of implants this year with the launch of its HiRes™ Ultra 3D cochlear implant, which features an innovative magnet design that allows cochlear implant recipients to undergo MRI scans without the need to surgically remove the magnet. This gives our recipients peace of mind and ensures that they can enjoy uninterrupted hearing if they need to go through this medical procedure.

Breakthroughs like Marvel reinforce our position as an innovation leader.

Arnd Kaldowski

In March 2019, Advanced Bionics introduced cochlear implant recipients to the universal direct connectivity made possible by Sonova's SWORD chip, once again highlighting the synergies between our businesses. We have further expanded our global partnerships with hearing care professionals (including those in our own audiological care business) and cochlear implant clinics to identify potential candidates for an implant solution among current hearing aid users and to manage their transition from hearing aids to the new experience of an implant.

Financial highlights

The Group's consolidated sales for the year were CHF 2,763.2 million, a rise of 4.4% in Swiss francs and 4.1% in local currencies. The increase was driven by organic growth, while the net impact of acquisitions and previously announced divestments slightly reduced growth. As expected, growth accelerated from the first half-year to the second, driven by new product introductions.

Towards the end of the financial year, Sonova announced steps to further improve its local operating structure in the UK, Germany, and Canada, streamlining the supply chain. The measures resulted in restructuring costs of CHF 11 million in the 2018/19 financial year, and are expected to lead to annual costs savings of around CHF 7 million once fully implemented. Adjusted for these costs, operating profit before acquisition-related amortization (EBITA) reached CHF 594.0 million, up 6.7% in local currencies (compared to the adjusted EBITA for 2017/18). Reported EBITA was CHF 582.5 million and reported earnings per share (EPS) reached CHF 6.98 (2017/18: CHF 6.13). The adjusted EPS was up 11.7% to CHF 7.11.

The Group achieved a stable cash flow. Net debt stands at CHF 253.9 million, and the balance sheet remains strong with a net debt/EBITDA ratio of 0.4.

Total shareholder return strategy

In October 2018, Sonova initiated a new share buyback program of up to CHF 1.5 billion, which will run for up to 36 months. The shares are repurchased for purposes of cancellation. In the event of an attractive larger acquisition opportunity, the program can be suspended or amended. In addition, the Board of Directors proposes a dividend of CHF 2.90 per share, an increase of 11.5% and representing an adjusted payout ratio of 41%. Our total shareholder return strategy, consisting of significant dividends and a steady share buyback program, is based on our confidence in Sonova's future cash generating capacity.

Corporate responsibility

Creating sustainable value for all our stakeholders and doing business responsibly are permanent elements of Sonova's corporate strategy. Our innovation and broad range of solutions create value for consumers and enable us to offer a path to better hearing for people around the world; this is why we continue to invest significantly in R&D. Of equal importance to us is that we continuously invest in the development of our employees and partners.

These efforts, along with our continuing pledge to apply eco-efficient practices across all our activities, have once again been recognized through our inclusion in the Dow Jones Sustainability and FTSE4Good Global indices for 2018. Our first-time selection to the Bloomberg Gender-Equality Index shows that our commitment to equality and a comprehensive diversity and inclusion strategy is bearing fruit.

The Hear the World Foundation, a key pillar of Sonova's social engagement, has supported people with hearing loss, especially disadvantaged children in developing countries, for more than twelve years. This year the foundation provided funding, hearing aid technology, and expertise for 23 projects, including in Peru assessing the hearing of over 20,000 children, fitting hearing aids, and training 50 speech therapy students to become audiology technicians.

LETTER TO SHAREHOLDERS

You can 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 Board of Directors

In November 2018, the Board announced the appointment of Victoria E. Carr-Brendel, effective April 1, 2019, as Group Vice President Cochlear Implants and President of Advanced Bionics, taking over from Hansjürg Emch. Having spent her entire career in healthcare, she has a background as an innovation and growth leader, bringing with her marketing, development, clinical, and strategic business experience in the medical device sector. The Board also announced that Ludger Althoff will be succeeding Hans Mehl as GVP Operations and member of the Sonova Management Board, effective April 1, 2019. He adds a wealth of experience in manufacturing of medical technology and life science products, global sourcing, and logistics, and is a highly experienced continuous improvement expert.

We are very pleased to welcome both new Management Board members, who will be important contributors to our team on our journey to further expand our business in a fast-moving global environment. We also want to sincerely thank Hansjürg Emch and Hans Mehl for the key roles they have played in past years.

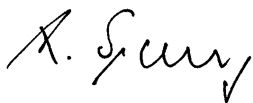
Anssi Vanjoki, non-executive member of the Board of Directors, will not stand for re-election at the Annual General Shareholders' Meeting in June 2019. We warmly thank Anssi Vanjoki for his many years of most valuable contributions to the growth and strategic development of the Sonova Group.

Our thanks

Operating at the forefront of innovation and giving consumers ever better hearing experience requires not just the commitment to excel – it demands the desire to improve continually, year-on-year. Sonova employees show that desire: their enthusiasm for pushing the limits of hearing care is the source of our success. The collaboration we enjoy with researchers and hearing care professionals helps to ensure that our innovation is centered on the consumer's most critical needs. And the people who benefit from our solutions remain our inspiration and motivation, every working day. All this is enabled by the firm support of our shareholders, which allows us to make continued significant advances. We sincerely thank you all.

Outlook 2019/20

The global hearing care market offers both general and specific opportunities for continued growth. Our strategy is tuned to capture these benefits while delivering further advances in commercial excellence and operational efficiency. We therefore expect to increase consolidated sales in 2019/20 by 6-8% in local currencies, while further expanding profitability.



Robert Spoerry
Chairman of the
Board of Directors



Arnd Kaldowski
CEO

1) Jansen, S., & Woodward, J. (2018). Love at first sound: the new Phonak precalculation. Phonak Insight, retrieved from www.phonakpro.com/evidence, accessed October 16th, 2018.