



Letter to shareholders

Dear shareholders,

Decisive action in a time of uncertainty

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

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

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

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

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

We have taken decisive action to ensure that Sonova continues to deliver for all its stakeholders.

Robert Spoerry

shareholders, the Board of Directors and the Management Board have also decided to take a number of compensation related measures including an immediate voluntary reduction in their cash compensation for the duration of the crisis.

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

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

A year of good progress on many fronts

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

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

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

Hearing Instruments segment

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

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

I am convinced that Sonova will successfully navigate the current market challenges and maintain our leadership in hearing care.

Arnd Kaldowski

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

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

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

Cochlear Implants segment

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

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

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

Financial performance

The Group achieved consolidated sales of CHF 2,917 million, representing a rise of 8.7% in local currencies and 5.6% in Swiss francs. This was driven both by organic growth and bolt-on acquisitions.

The reported EBITA increased by 1.0% in local currencies but declined by 4.8% in Swiss francs to CHF 554.3 million. As in the previous year, we initiated further measures to improve our operating structure. The costs associated with these measures, as well as returns for credit and one-time costs related to the voluntary field corrective action, are excluded from the adjusted result. Adjusted operating profit before acquisition-related amortization (EBITA) stood at CHF 620.8 million, up 10.4% in local currencies and 4.5% in Swiss francs. Basic earnings per share (EPS) reached CHF 7.61 (2018/19: CHF 6.98), an increase of 9.0% from the prior year. Adjusted earnings per share (EPS), which excludes the impact of Swiss tax reform, restructuring costs, as well as the returns for credit and one-time costs mentioned above, reached CHF 7.39, up 11.6% in local currencies and 4.0% in Swiss francs.

The solid earnings development, coupled with targeted initiatives to improve working capital management, resulted in a strong cash flow and a marked improvement in Sonova's cash conversion ratio to 103%.

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

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

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

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

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

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

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

Changes to the Board of Directors

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

Change in auditor

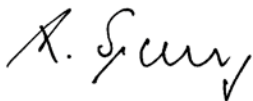
In 2019/20, as part of its commitment to good Corporate Governance, Sonova invited tenders for its audit services. After a carefully conducted review process, the Board decided to follow the Audit Committee's suggestion and propose a change in auditor to the 2020 Annual General Shareholders' Meeting.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

Our thanks

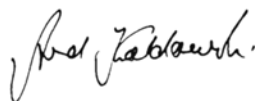
Growing, innovating, continuously improving: these strategic objectives call on the skills and commitment of every Sonova employee, every day. We knew already how much we gain from the motivation and enthusiasm of our people, but are even more impressed by the understanding, flexibility, and initiative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

Outlook

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



Robert Spoerry
Chairman of the
Board of Directors



Arnd Kaldowski
CEO