



## Strategy and businesses

Sonova's inspiration is a world where more and more people can enjoy the delight of hearing and therefore live a life without limitations.

Hearing is essential to fully enjoying and participating in life. Sonova thus remains committed to deliver, with market-leading innovation, ever better hearing performance and consumer experience to ever more people, through the industry's broadest portfolio of products, applications, and services.

### Addressing the challenges of COVID-19

Restrictions necessary to slow the spread of the coronavirus have disrupted business and our ability to bring better hearing to more people since mid-March. Audiology stores – the primary consumer channel for hearing care products and services – have much reduced operating hours or are temporarily closed. Senior citizens, the largest segment of hearing care consumers, are a high-risk group for COVID-19 and have been asked to stay at home to protect their health. The Cochlear Implant business is also affected, because many countries are deferring non-essential surgeries.

These developments pose a challenge to the entire hearing care industry, and therefore also to Sonova, the market leader. As a global company, we regularly assess conditions in every market where we do business and react to change in a swift and effective way. The alignment of clear Group strategy with local initiative and know-how has enabled Sonova to adapt and improve in this fast-changing environment. These are useful qualities in a crisis – but also essential to the way we do business in more normal times.

The crisis has not changed the fundamental positives of the hearing care market. Hearing is a basic human need. Hearing care is an essential and expanding segment of health care. Innovation will provide ever better hearing performance from hearing instruments, and a broader range of solutions that enrich the lives of consumers. And Sonova is determined to sustain its position as the innovation leader.

We have taken the decisive short-term measures necessary to protect the health of our employees and customers, maintain our operations, reduce cost, and preserve working capital through this interim period. We are maintaining our planned increase in R&D investment, because we are confident that our market will rebound strongly and we are determined to be prepared for that. We are already seeing developments that will shape the future of our industry, including greater consumer acceptance of distance support tools and the potential for further consolidation in the retail hearing care market. Our strategy is calibrated, not merely for the challenges of today, but for the opportunities of tomorrow – and it is this primarily long-term strategy, with the steps we are taking to implement it, that we describe in this section of the Annual Report.

### The Sonova Group

Sonova operates through three core businesses: Hearing Instruments, Audiological Care, and Cochlear Implants. The Hearing Instruments business develops, manufactures, and distributes the hearing aids and wireless communications devices that provide the exceptional hearing performance upon which all our businesses are founded. Audiological Care operates one of the world's largest networks of stores and clinics, supporting consumers with advanced services, a comprehensive product range, and deep audiological expertise. Cochlear Implants allow us to extend our offering to address severe forms of hearing loss that even the most powerful hearing aids cannot help. The three businesses work closely together, exchanging technology and talent – giving Sonova the depth and flexibility to capitalize on new opportunities.

Sonova has a uniquely integrated business model, offering solutions for every form of hearing loss, covering the whole value chain from product to consumer, and providing an omni-channel experience, where consumers have the full choice of where, when, and how they engage with the professionals who provide their hearing care.

Our consumers are increasingly from the baby-boomer generation: computer-literate, active, self-reliant people who demand continued improvement in hearing performance, a broad choice of channels to hearing care, and control of how their hearing instruments connect with the rest of their digital lives.

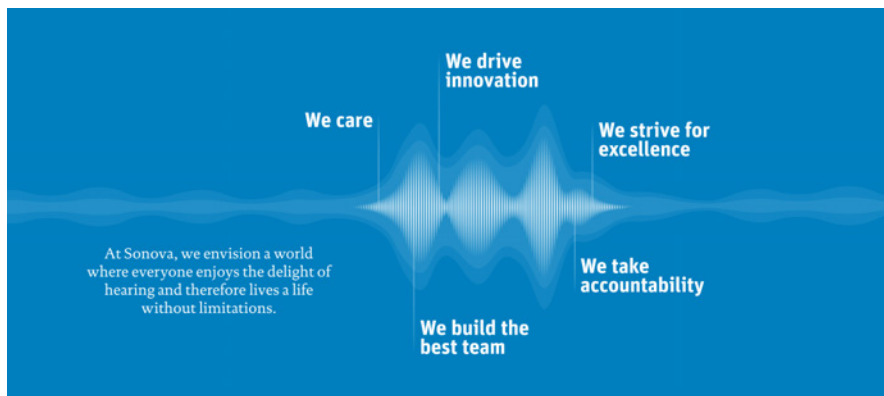
Our innovation framework addresses the needs of this growing consumer base by broadening the capabilities of our products: continuing to improve hearing performance while optimizing comfort and fit, then leveraging connectivity and the range of new applications that it enables – including, in the future, providing additional health-related functions, so that our products can serve as versatile tools for healthy, enjoyable living. Sonova's integrated range of solutions and services gives us detailed insight about consumer aspirations, which then inspires and informs our continuous cycle of innovation.

## STRATEGY AND BUSINESSES

Our strategy drives us to seize opportunities at every phase of this cycle: leading innovation, extending consumer and market access, improving our processes, and optimizing our corporate structure.

The Marvel technology platform shows this strategy in action. Having now sold over two million units just 16 months since being introduced in November 2018, Marvel is the most successful product launch in our history. Consumers have responded enthusiastically to its rich, detailed sound experience, both in conversation and music, and to its ease of fitting and use, true to the slogan “Love at First Sound.” Now available across Phonak’s entire hearing aid range, Marvel has delivered exceptional sales for both our Hearing Instruments and Audiological Care businesses, and its technology promises great future benefits for our cochlear implant users. And we continued to improve it, delivering important new functionality in 2019 that adds value for both new and existing consumers.

To operate with the agility that our customers demand and offer the working environment that our employees deserve, we need a shared culture: uniform values that define how we work anywhere in the world. This year we completed a broad-based internal effort, including focus groups and the HearMe employee survey, synthesizing the five core values that guide all we do:



We see these values as combining clear statements of the principles by which we have always worked in the past with the aspirations we all share for a transformative future.

## Key areas of activity

### Innovation

Building on Phonak's innovative Marvel platform, we made it available across our entire hearing instrument product range, bringing Marvel's excellent audiological performance, universal Bluetooth® connectivity, and rechargeability to all the consumer groups we serve.

We also upgraded the platform with Marvel 2.0, adding important new capabilities like dual Bluetooth® connection and integrated Roger™ wireless communication. The myPhonak app, launched this year, provides a digital environment where users can take even more control, both of their hearing aids and of the support they receive. The consumer response has been overwhelmingly positive with over half a million downloads since the launch of the Marvel platform.

To complement our strong R&D hubs in Stäfa and around the world, we announced in November 2019 the opening of the Sonova Innovation Lab in Waterloo, Ontario, Canada, where we will explore new digital capabilities in one of the leading consumer app development centers in North America, bringing together experts from our various specialties with people from the mobile industry to accelerate our app development.



Phonak Audéo M-R hearing aids based on Marvel 2.0 platform

### Market and consumer access

Commercial excellence is a vital component of our strategy. We are committed to being as innovative and efficient in how we market and sell our products as we are in designing and making them. This year, we launched a strategic initiative to systematize how we identify and classify customers, how we help them through the sales process, and how we support our salesforce with the right marketing tools at every step. It is being rolled out, along with an expansion of our salesforce, in the UK, Germany, France, and the US.

We continue to pursue a focused M&A strategy, complementing our network's bolt-on acquisitions through additional openings of greenfield shops. This ensures that our geographical profile fits well with our target market. It also fits with our commitment to train more audiologists, both for our own network and for the industry as a whole. In high-growth markets, which are often more internet-accepting than developed markets, our omni-channel strategy will allow us to make best use of our available talent even in the absence of a large physical shop network.

## Improvement and optimization

Sonova has made many strides this year in the multi-year journey to implement our continuous improvement and structural optimization program. We have begun with our manufacturing operations and now have dedicated continuous improvement resources and infrastructure in place at every major site. We involve all our employees in the quest to continuously improve our processes.

We are fostering commercial excellence by extending process-focused improvements to the sales process, and are taking active steps toward structural improvement, optimizing our global footprint to eliminate duplication.

The aim of these programs is to free up resources that can be reinvested in the growth and improved returns of the Group. Every function has a role to play in this and every part of the business will benefit.



Feature story:  
“Being able to hear makes me feel alive”

Natália Martins is a professional volleyball player who wears hearing aids made by Sonova brand Phonak. Having worn hearing instruments since losing her hearing in childhood, she is able to interact freely with the outside world and has even secured a place on the Brazilian national team. She is now bidding her home country farewell to begin a career in Europe.

A young woman in cream shorts is dancing in the middle of a group of samba drummers, a faraway look in her eyes. The bewitching Brazilian beats have brought a beaming smile to her lips. Natália Martins loves samba, but the hypnotic rhythm would be no more than a distant murmur for her without her hearing aids. Natália was four when a doctor diagnosed her with 70% hearing loss and, at the age of six, the little girl was fitted with her first hearing aids, which she tried very hard to look after. “Even back then, I had a sense that the world was just a black void if I couldn’t hear,” she explains. Despite taking the best of care, she lost one of the devices a few years later and had to wait twelve long months for a replacement. Throughout this time, she was obliged to sit in the front row at school, keeping the teacher’s mouth in eyeshot in order to read her lips. Her balance was also adversely affected during this period.





Natália’s mother wanted to give her daughter the chance to lead an independent life, even with hearing loss, so she sent her child to a regular school and nurtured her talent for sport. As Natália was pushing 5 foot 7 inches in height at the age of 11, one day her gymnastics teacher suggested, “You should try volleyball!” From that moment on, life for the tall adolescent changed forever, and she soon realized that she wanted to make a career of the sport. She had the talent – but would she be able to make the cut with her hearing loss? One day, she gathered up the courage to post this question on the website of her idol, Bernardo Rocha de Rezende, Brazil’s greatest volleyball trainer of all time: “I want to achieve what you have achieved, but I have hearing loss – do I still stand a chance?” A single click, and the question was sent out– and an answer received. “You will need determination, perseverance and strength – you can achieve anything with that,” wrote the seasoned pro, and Natália felt like she was walking on air. She has become Brazil’s first professional volleyball player living with hearing loss and has managed to make the leap from a local side to the Super League and the country’s national team. She says she will never forget her hero’s advice as long as she lives.

She is helped on court and in training by her regularly upgraded hearing aids, which are capable of differentiating individual sounds ever more clearly. Natália has been experiencing hitherto unknown noises and tones: “It felt almost miraculous that I could suddenly understand the words of the songs the fans of our club, Osasco, were singing – previously I had only been able to make out melodies,” says the grown woman with childlike excitement. A number of her teammates have jokingly claimed she deliberately turns off her hearing aids during training so she can’t hear the trainer’s criticism. Natália bats away the accusation with a laugh: “Come on, it’s been ages since I’ve done that!”



Natália loves her job, and her humorous, helpful personality have made her popular with her teammates. Everything seems easier when she's around, as Natália has a rare talent for being happy. She loves the silence in the changing room before the game, when she summons up her concentration and the adrenaline is pumping through her veins, giving her goosebumps. The roar of the cheering fans is one of her absolute favorite sounds. Her hearing aids have long since become part of her body. She puts them in first thing after getting up in the morning and takes them out only when she goes to bed. The Phonak Naída™ hearing aids are invisible to the outside world under her shoulder-length hair, but when she turns them on, it is like inviting the whole world into her life. She was initially unable to make phone calls with her hearing aids because there were too many echoes, but the devices' constantly evolving technology soon fixed that problem. Whenever she meets people with reservations about opting for a hearing aid she asks them: "Why not? It gives you far greater quality of life and makes you feel alive."

Despite her positive demeanor and formidable will power, Natália is still grateful for the support of her mother – and her husband. She met 6 foot 7 inches tall Peterson Henrique when she was in her mid-20s, and they married in 2012. The 40-year-old self-employed businessman has been by her side wherever her career has taken her – first to Brasília, then to Osasco near São Paulo, and now on to Europe. Even the thought of leaving her family and friends behind is making "Nati", as the fans call her, feel a little uneasy, but she is not one to waste time dwelling on gloomy thoughts: "I'm working up my courage and looking forward to the new challenges ahead!" Before her departure, she took a trip to Rio de Janeiro with Peterson to say goodbye to her friends and the familiar sounds of home: she is saying her farewells to Brazil. They stroll through the bustling artists' quarter of Santa Teresa, where Natália drinks in every noise, from the engine sounds of the familiar old trams to the jokey banter at the market, in the melodic cadences of Brazilian Portuguese. Natália listens intently to the waves on the beach at Copacabana and enjoys the view of Rio from the hill at Morro da Babilônia. She makes her way down to where more than three dozen samba drummers await. The members of Batucada Abençoada, who have made it into the Guinness Book of Records as the world's largest samba band, have prepared a farewell serenade in a surprise organized for her by her husband. Natália listens entranced as the rhythm takes over. Dancing sensuously amongst the drummers, she spins round and round, showing life her beaming smile.





Strategy and businesses

# Hearing Instruments business

**We continuously innovate to deliver the best possible hearing performance, connectivity, and convenience with complete accessibility, across a broad spectrum of consumer needs and markets.**

The natural place for a Sonova hearing aid is at the center of a full and active life, one without limitations. Consumers expect ever better hearing performance, seamless connection with their digital lives, convenient, stylish designs, and professional hearing care support through a range of channels. We respond to and anticipate their expectations, continuously improving the performance and capabilities of our products, services, and business.

On the product side, Phonak's Marvel platform is the perfect example of how we work to fulfil our consumer's needs. They value audiological performance: recent studies rate Marvel highest in overall sound quality<sup>1</sup>. They value connectivity: Marvel is rated the best and easiest connectivity solution<sup>2</sup> – the only hearing aid offering hands-free calling on iOS™ and Android™ cellphones. They value convenience: Marvel rates highest in first fit acceptance among first time wearers<sup>3</sup>. It is not surprising that 95% of hearing care professionals would recommend Marvel hearing aids to their peers<sup>4</sup>.

Marvel has sold more than two million units in just 16 months after its launch. It is the most successful product in the history of our business. It was planned from the outset as a no-compromise hearing solution, where each benefit is optimized without limiting the others.

Continuous innovation, however, means that there is always a way to improve, and so we have launched further upgrades to Marvel this year, now allowing it to pair two Bluetooth® audio devices at the same time and adding powerful new capability with invisibly and seamlessly integrated RogerDirect™ wireless communication. As we continue to add new applications and functions, we bring our products ever closer to the goal of being a healthy living companion.

Just as we are working to accelerate and enrich the innovation cycle with upgrades between major platform launches, we have introduced initiatives to further leverage all marketing tools at our disposal and extend and deepen our customer reach through what we call “commercial excellence.” This supports our product innovation through targeted growth investments to refine sales and marketing excellence, while also boosting coverage in high-potential markets.

Sonova’s Hearing Instruments business operates through four brands. Phonak, which is available worldwide through all of Sonova’s sales channels including our own Audiological Care business, is committed to delivering industry-leading technology and hearing performance, backed by an ever richer consumer experience. Unitron helps hearing care professionals build their businesses with its unique Flex trial and upgrade solutions. Hansaton operates as an exclusive regional brand, including through retailers in high-growth markets, while AudioNova is the recently launched exclusive brand for our Audiological Care business.

- 1) Jansen, S. & Woodward, J. (2018). Love at first sound: the new Phonak precalculation. Phonak Insight. Retrieved from <https://www.phonakpro.com/com/en/resources/information-forms/evidence/Library.html>, accessed August 28, 2019
- 2) Knorr, H. & Ritter N. (2019) Market Research ID1359. n=203 HCPs in USA.
- 3) Rakita, L. & Steward, E. (2018). Best first fit experience from Phonak. Phonak Marvel. Phonak Field Study News. Retrieved from <https://www.phonakpro.com/com/en/resources/information-forms/evidence/Library.html>, accessed August 28, 2019
- 4) Phonak market survey #1241 “Marvel Post Launch Research B2B,” survey conducted in Canada, Germany, USA, January 2019 (215 participants).

## Key areas of activity

### Innovation

We called this year’s upgrade to the Marvel platform “Marvel 2.0,” because it is the equivalent of a new operating system for a computer: the device remains the same, but the capabilities are significantly improved. One of the most important innovations was RogerDirect™, which allows wireless streaming of sound from a remote microphone directly to the hearing aid without any additional accessory. Roger® technology bridges the understanding gap in loud noise and over distance, giving users a better hearing experience than people without any hearing loss in these challenging situations.

To complement RogerDirect™, we launched the Phonak Sky™ M range of hearing aids for children. These offer Marvel’s exceptional hearing performance for optimal speech intelligibility and language development, along with the first operating system designed specifically for children. Fully integrated and invisible RogerDirect™ allows wearers to participate fully in conversations, even in very noisy school environments, without the potential stigma of a bulky hearing aid, while universal Bluetooth® connectivity allows them full use of phones and classroom tablets.

Connectivity adds a digital ecosystem to each Marvel hearing aid. A key example of this is the updated myPhonak app, which gives wearers an enhanced and personalized hearing experience, including remote support, fitting and control, a hearing diary, and advanced customization options such as noise reduction and speech focus. More than

half a million Marvel users have downloaded our myPhonak app. Many are finding it an invaluable tool during the COVID-19 pandemic, ensuring continued contact with their hearing care providers during times of enforced social distancing.



With Marvel 2.0, Phonak is making RogerDirect™ available to all Marvel hearing aids

## Market and consumer access

As part of our commercial excellence initiatives, we have been investing in internal capabilities and systems to support our marketing and sales functions. We have expanded our sales force in key markets, putting more “feet on the street” and backing them with the marketing tools and coaching that they need to generate and convert sales leads. In the US, we have seen significant sales successes, doubling our market share with the Department of Veterans Affairs (VA) and gaining a significant contract with a large hearing aid retailer that also offers access to a younger, earlier-adopting market segment.

Sales and marketing excellence is strengthened by our multi-channel approach to consumer support – and by our agility in adapting it to new circumstances. The US Department of Veterans Affairs (VA), for instance, has been faced with a major challenge by the COVID-19 pandemic: although it has not shut down its hearing care clinics, only 20% of the veterans it serves have been able to attend because of social distancing concerns. The VA is therefore adopting Phonak’s own online educational materials and remote support apps to strengthen their remote outreach to the veterans they serve. Phonak is also pre-programming hearing aids to reduce the number of in-person visits. The challenge of this medical crisis has become an opportunity to accelerate new ways of serving our customers.

## Improvement and optimization

Process improvement is now a daily activity across the Hearing Instruments business: in R&D, manufacturing, distribution, and sales, we examine what we do and take the steps, large or small, that are necessary to shorten cycle times, reduce goods on hand, cut waste, and improve margins. All our employees have an active role to play, and we draw on their experience during regular intensive problem-solving sessions.

At the same time, we continue to examine ways in which we can make our corporate structure more efficient and reduce our organizational overheads. This year, we shifted certain service and manufacturing activities from our UK service center to the regional center in Spain and to the operation center in Vietnam, both for greater efficiency and to forestall potential risk of disruption due to the UK's departure from the European Union. We have integrated support services for all our hearing aid brands in Germany at a single center in Fellbach and service and repair activities in Canada at Mississauga. We are also initiating the integration of all US back-office functions in our Hearing Instruments segment to a single site. The end goal of each of these initiatives is to increase agility while generating funds for increased investments in growth- and revenue-producing activities.



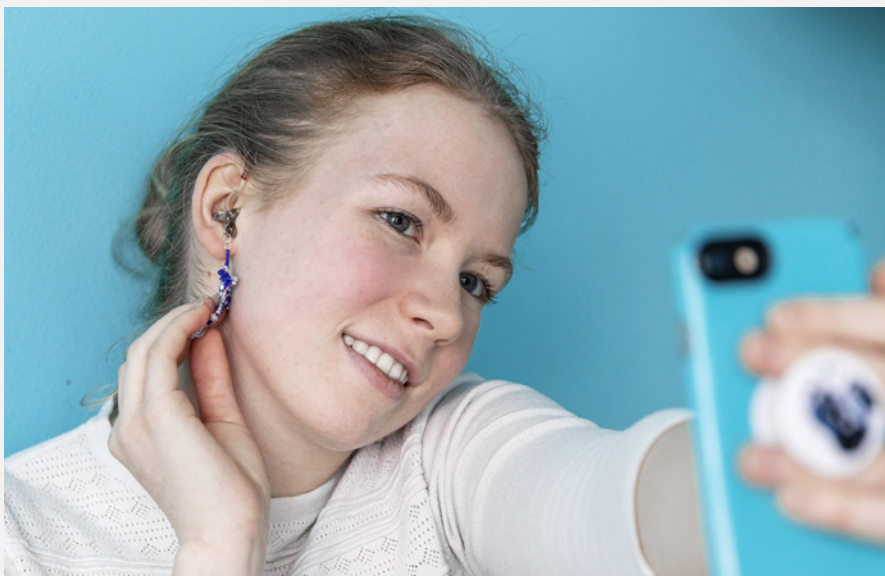


Hearing Instruments business

## From teen to teen

Sonova's Teen Advisory Board has successfully helped its Phonak brand connect more effectively with its Generation Z target demographic. A group of hand-picked youngsters have been encouraging their peers and comparing notes on their experiences of living life with hearing loss.

Ellie Warren inserts a delicate-looking thread through the little apertures in the last few crystals and knots them up. She loves shiny things. The jewelry, which she has designed and created herself, is finished: two stars, made from violet and white crystals. She attaches the trinkets to her hearing aids and tries them on. Ellie calls them "hear rings", earrings for her hearing aids. "Jewelry helps me express myself. Most people notice my creations first and only spot my hearing aids afterwards, so I can start a conversation about hearing loss. Little children in particular like the colorful stones. I explain to them what it means to be hard of hearing and try to do my bit to chip away at prejudices," explains the 16-year-old.



## FROM TEEN TO TEEN

The high school student from Ohio, USA, has been a member of Phonak's Teen Advisory Board for a year. The program, which was launched by Sonova brand Phonak in September 2018, is designed to appeal principally to adolescents and is intended to give them a better understanding of the challenges facing young people with hearing loss. Marketing Communications Manager Cecilia Zugaib, who is in charge of the Teen Advisory Board, explains: "We had had lots of projects for teenagers in the past, and our experiences there had shown that teens are more comfortable communicating amongst themselves than directly with a company. Our teen advisors want to encourage their peers and show them ways of living their best lives with hearing loss. This prompted my colleague Angela Pelosi, Director Global Audiology, to put together an advisory team of teenagers so that they can communicate with their peers, compare notes on their experiences and become role models for other teens and children." A competition to find candidates for the pilot project was announced in the USA and Canada. The application form, which was mainly circulated via NGOs, teachers, ENT specialists and pediatricians, attracted responses from more than 50 candidates who submitted audition videos. The successful applicants for the Teen Advisory Board were selected from these, and there are currently seven on the roster.

Ellie is one of them. "I happened to be at a camp where I do voluntary work when I got the call. I was ecstatic, and very excited about the first meeting with the other participants. I think there's a special connection between people with hearing loss, and this is definitely the case on the Teen Advisory Board. We have made lots of new friendships and when we meet, we end up sitting in the hotel lobby in the evening and talking late into the night."

Cecilia Zugaib explains the key selection criteria for Phonak's team of experts: "We were looking for young people with different types of hearing loss and for a mix of personalities. The idea was that they would act as role models for their peers and take an active role on the board." But what exactly does that mean? The adolescents are encouraged to address topics relevant to teenagers in a range of formats (such as videos and posts) and upload these to their own social media channels and Phonak's sites. The teen advisors also write articles about their lives and daily routines for HearingLikeMe, a news and lifestyle website for people with hearing loss that is sponsored by Phonak. "The goal is for a member of the Teen Advisory Board to publish one article a month," says project leader Cecilia Zugaib.

Ellie has already written several contributions for HearingLikeMe, including pieces about her daily life in a family in which three of the four siblings (including her) are affected by hearing loss.





The project leader believes that Phonak's strategy of reaching out to young people with this kind of communication is paying off. "Based on comments by lots of teenagers who follow our teen advisors on social media, we know that they have been benefiting from the advisors' recommendations and that switching over to Phonak Marvel products has been a game-changer for them."

It is not just in these external communications that the positive effects of the project have become apparent. As all the members of the Teen Advisory Board will receive the newest devices, such as Audéo Marvel, Sky Marvel and Roger microphones, they are simultaneously test subjects as well. Ellie, for example, is scheduled to be fitted with the new Phonak Sky Marvel-SP devices. User experiences with the devices and the specific technical requirements of this target demographic are gleaned from regular telephone conversations and questionnaires – what, for instance, can the devices do for a school student's day-to-day life? What particular extra technical options are on the teens' wishlist?

Ellie speaks on the phone once a month to discuss things with her contacts at Phonak, including Cecilia. She also takes part in webinars and the teen advisors catch up online every two months. The information gathered is useful for a range of departments, says Cecilia Zugaib. "Colleagues from marketing, pediatrics and R&D have come up to me to say so – the whole Sonova community can learn from the experiences of our teen advisors." This success has meant that the pilot project has been recommissioned and is to be extended in a similar form.

After a year on the Teen Advisory Board, Ellie's experience has been extremely positive as well, as she enthusiastically recounts: "Thanks to the program, my self-confidence has improved by leaps and bounds. It has also helped me to find my bearings in certain social situations more easily. The program gives teenagers affected by hearing loss tremendous opportunities to connect with one another."



Strategy and businesses

# Audiological Care business

**Backed by Sonova’s industry-leading portfolio of products and solutions, our experts support consumers along their hearing journey and through their chosen channel of interaction.**

Sonova’s Audiological Care business is a key contributor to the Group’s integrated business model, providing direct access to consumers and insight into their needs, elevating awareness of Sonova’s brands and their role in each consumer’s journey, and identifying potential candidates for Advanced Bionics cochlear implants. In return, Audiological Care benefits from the Group’s combined lead generation, marketing resources, and operational capabilities; it gains by being able to provide the full range of Sonova products and solutions; and it makes use of Sonova’s well-known heritage of audiological expertise to attract and retain the best talent.

Audiological Care represents the second-largest store network in the industry, with a clear path to further growth. We operate a global network of about 3,500 stores and clinics with more than 7,000 employees in 19 countries. Largely assembled through complementary acquisitions, the business is well advanced toward operating as a single platform with uniform best practice and globally shared systems, training, processes, and support functions.

Our market is evolving rapidly as a result of demographic changes and retail trends: we are seeing an acceleration of market consolidation, an increasing distinction between basic, high-volume solutions and high-value “medical” solutions, and further emphasis on the preferences of the baby-boomer generation for multi-channel access to services, advanced technology, and personalized care. Our strategy addresses these trends directly, opening paths to growth by anticipating and fulfilling changing consumer needs.

We differentiate our business through expertise: the skills of our audiologists, supported by a comprehensive product range and a broad service offering. We are able to offer exceptional expertise throughout the full network thanks to a cluster concept. This comprises excellence centers offering extended medical services – related, among other treatments, to tinnitus and balance therapy or cochlear implants – linked to satellite offices that provide quick, efficient standard testing and fitting, with straightforward evaluation for referral to the center.

Examples of excellence centers are our World of Hearing stores, already operating in the Netherlands and Denmark with additional countries to follow. They offer an immersive, information-rich consumer experience, backed by conversation with experts. The full range of Sonova products is on display and a specialist team is available to provide a range of medical treatments. The results justify the business case: higher conversion rates and premium product sales. We plan to open further World of Hearing excellence centers in selected markets in the future.

## Key areas of activity

### Innovation

The continuing market success of Phonak's Marvel technology has also been a success for Audiological Care, as its exceptional hearing performance and supporting apps give our consumers access to world-leading technology. With its immediate positive impact, "Love at First Sound," Marvel is the ideal introduction to the full range of advanced Sonova solutions and a firm foundation from which we can prove our expertise. At the same time, we are aware of the demand for more accessible yet still fully featured products that allow us to serve the whole market; we have therefore introduced the AudioNova product range, exclusive to our store network, to complement Phonak's premium brand value.

We have already set up a variety of channels for engaging consumers before the sale: social media and search engine marketing, self-screening kiosks at partner stores, online portals, and so on. Going forward, we plan to add additional tools to maintain engagement after the sale, including real-time personalized support anytime and anywhere for a seamless, omni-channel consumer experience.

### Market and consumer access

Our consumers demand choice in how they work with us at every stage of their journey. The great majority wish to interact directly with a hearing care professional, whether in-store or by phone, at key points such as initial counselling or trying out a hearing aid. Some are comfortable with online resources, others prefer more autonomy and personal control – or are restricted to remote support because of COVID-19 related social distancing. That is why we have our omni-channel strategy: so that our consumers can enjoy a seamless and comfortable experience with us, regardless of how contact is made – and we can understand and anticipate changing consumer needs.

We are well along the way to full implementation of this strategy, building the necessary IT and data analytics capabilities. At the same time, we are in the fortunate position of having acquired in April 2019 a small company with a similar approach: Blamey Saunders hears (BSH), an Australian hearing health provider with a distinctive model that blends online, call center, and clinic. Acquiring BSH will give us valuable real-life insight into the omni-channel approach and marketing techniques for younger and for higher-spending consumers.

## Improvement and optimization

We have standardized our systems, training, and processes across the network – and in doing so, we have built in the means for continuous improvement. Our omni-channel model and the valuable data it generates will keep us flexible and responsive in our approach to the market. At the same time, we are taking the opportunity to optimize our structure, which still showed some of the after-effects of the many acquisitions that went into it.

We are committed to having a single store brand for each country where we operate, taking advantage of the “local champion” brand name to build awareness. Like our transition to uniform systems and processes, the now-completed transition to a single brand follows the same key principles in every country. We have also introduced the Phonak brand in all our stores and clinics, identifying our network with a highly respected name offering exceptional hearing performance.

We are completing this consolidation process in Germany, where we have gone from 25 brands and five legal entities in 2017 to one brand, one HQ, one ERP system and one local repair site in 2020, giving us market and brand leadership. The equivalent process in Belgium has delivered growth in net sales and operating margin while confirming our leadership in this market.



Audiological Care business

## A new world of hearing

The Sonova Group has been setting new standards in the hearing care industry with innovative store designs. The focus is on interactive experience, innovative products and services for complex hearing conditions such as tinnitus. The world's first specialist audiology store designed according to this model was opened by Sonova brand Schoonenberg in Dordrecht in December 2018.

Willem van Gent puts on the headphones. Sitting at a large monitor in a darkened booth known as the “experience room”, he is experiencing his hearing loss and the effect of a hearing instrument. A video is running on the screen in front of him – a pop band is playing at full throttle and the piano player is hammering away at the keys. The 64-year-old suddenly stops short, exclaiming in complete astonishment: “I haven’t heard these high notes in years. This is just incredible!”

Several weeks have passed since this aural epiphany in the World of Hearing shop in Dordrecht, and Willem van Gent, a quality control inspector for a large agricultural produce company and a passionate fan of blues rock, has since been fitted with a Phonak Marvel. The hearing aid has brought him a new lease on life. “I can hear like I did 25 years ago. When I stream music via Spotify, it sounds really good. It used to sound weird.” He had only realized that he was no longer picking up on every sound frequency when the audiologist in the World of Hearing experience room played him the same rock concert – first with no hearing aid, then with a Phonak Marvel device.



Steven Thomas, Managing Director Sonova Audiological Care in the Netherlands

“A lot of our customers have had the same ‘eureka moment’ as Willem van Gent,” explains Steven Thomas, Managing Director Sonova Audiological Care in the Netherlands and co-designer of the innovative “World of Hearing” concept, whose pilot store is located in Dordrecht, South Holland, about 12 miles southeast of Rotterdam. “Back in the day, customers just had to take it on faith when the audiologist told them that a technology or a device was better. Now, they can check it out first-hand in the experience room, or in real-life situations such as a restaurant visit or a concert.”

The high-tech sound booth, which looks like a two-seater private cinema, is not the only special feature at the World of Hearing audiology store, however. Even at first glance, the entire store has little in common with a traditional audiology business: the inviting open-plan store layout, with the sound booths located to the rear, encourages customers to explore the space. As soon as customers enter the store, they encounter the first of several interactive tables. Using the “Lift & Learn” system, they can take products from the shelves and place them on these tables to learn more about them. Here’s how it works: the products – a hearing aid, for example – are presented in little display cases and can be taken out and placed on a particular area of the interactive tables. The technology immediately recognizes the product and sends information to the screen. “At first, lots of young people came in just to play with the interactive tech in the store,” says staff member Conny Polleunis, an audiologist who has specialized in the new shop design.



Customer Willem van Gent in the “experience room”



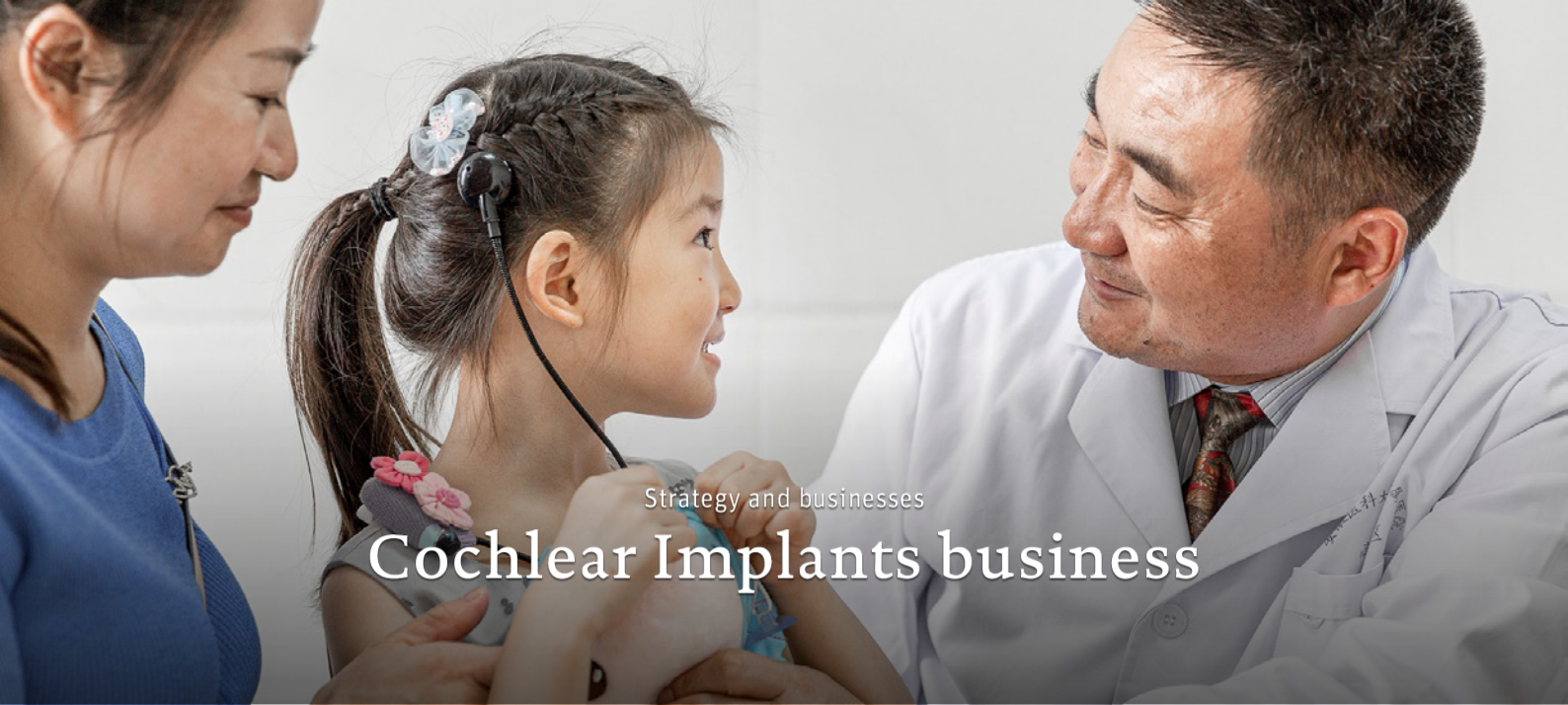
The store is divided into three thematic areas: hearing protection, hearing innovations and expert solutions. As Conny Polleunis explains, “We didn’t just want to help people with hearing loss; we also wanted to support people with normal hearing – which means that there is something of interest even for folk who have just wandered into the store out of curiosity.” The hearing innovations area presents new hearing solutions such as Phonak Lyric, the first 100% invisible hearing device that can be worn 24/7 for months at a time. Steven Thomas, World of Hearing’s Managing Director, explains: “Our market research has consistently confirmed that it’s the invisibility of a device that seals the deal for customers. This is why it was important for us to be able to offer our customers this kind of technological innovation.”

The third and last thematic area is aimed at people with complex hearing problems such as tinnitus, severe hearing loss, pediatric solutions and staying often in complex listening environments. World of Hearing also works with the Sonova brand Advanced Bionics, which provides cochlear implant solutions. In addition, the store offers consultations for tinnitus. Says Steven Thomas: “It’s crucial nowadays to offer medical services, and we want to expand this in future to include treatments and preventive measures for the vestibular system located in the ear.”

Its new design and the many innovative and interactive features make World of Hearing a specialist audiology store of the future, capable of taking customers on a journey of discovery through their own hearing experiences. The relaxed atmosphere, the option to just drop in and receive a bespoke audiological consultation without an appointment, trying out hearing aids in typical virtual situations in the “experience room”, even with the offer to test them in real life immediately – all this helps to demonstrate the added value offered by high-end hearing aids in a tangible way.

Since the store opened in the middle of Dordrecht’s pedestrianized zone in December 2018, World of Hearing has significantly expanded its share of the private market (i.e. the market for devices not covered by health insurers) within a matter of months; it has also attracted a clientele that is around five years younger on average. Given this success, Sonova is planning to roll out the concept internationally, and further World of Hearing specialist audiology stores are set to open in other countries in the coming years starting in 2020.

The new store’s successful design, with its focus on interactive experiences combined with innovative products and services has also convinced customer Willem van Gent: “After just a few minutes with the Phonak Marvel, I knew I couldn’t bear to be without the device anymore.”



Strategy and businesses

## Cochlear Implants business

**Advanced Bionics cochlear implants bring the world of sound to those with the most significant hearing loss.**

A cochlear implant is a life-long solution for significant or complete hearing loss. Unlike hearing aids which amplify sound, cochlear implants electrically stimulate the hearing nerve, bypassing the damaged part of the ear; a wearable processor captures sound and converts it into an electrical signal which is transmitted to the implant.

Advanced Bionics has a presence in 85 countries and employs more than 900 people across the business in R&D, manufacturing and distribution, and also in the many roles that support consumers throughout their hearing journey. Choosing a cochlear implant is a major life decision, so we work closely with potential recipients and their families, with audiologists, with surgeons and clinics, explaining what our technology can offer, listening to their hopes and concerns, providing support, and planning further innovation.

As with all of Sonova's work, our goal at Advanced Bionics is to provide the best possible hearing performance and consumer experience, and we benefit from in-depth collaboration with the other businesses. Phonak technology lets us offer the sophisticated sound processing and connectivity that sets Sonova's hearing aids apart. The Audiological Care network of stores and clinics, along with the Hearing Instruments wholesale business, let us establish relationships with consumers at the point of need, when their hearing loss has advanced beyond the point where hearing aids can address the loss. And because the cochlear implant processor incorporates the same sound processing as our Phonak hearing aids, these consumers do not have to re-learn the "sound of sound." This joined-up approach means that no-one with severe to profound hearing loss needs to miss out. Consumers and audiologists know that Sonova is there for the whole journey.

Our prime concerns at Advanced Bionics are the safety and hearing experience of our recipients, and the reliability of our products. It is in this spirit that we retrieved from the market in February 2020 the un-implanted initial version of our HiRes™ Ultra and Ultra 3D cochlear implants. The vast majority of these devices function correctly, but we took this step in an abundance of caution, having observed an increase in reports of reduced hearing performance. Most importantly, there have been zero reported safety events relative to this issue with these devices. The initial version of the HiRes™ Ultra 3D implant has been superseded by a new version, which includes several improvements to support consistently good hearing performance.

## Key areas of activity

### Innovation

The launch last year of Advanced Bionics' HiRes™ Ultra 3D implant addressed a key issue with cochlear implants: what to do when getting an MRI (magnetic resonance imaging) scan. These scans are increasingly required for health reasons, but they can cause pain and anxiety for people with cochlear implants because their strong magnetic fields exert force on the magnet in the implant. Before last year, the choice for most cochlear implant recipients was complex head positioning and bandaging in place to try to minimize the misalignment of the magnet, or even surgically removing the magnet before the scan, depriving the patient of hearing for a time. With HiRes™ Ultra 3D, the magnet array is free to rotate in three dimensions and self-align with the scanner's field, preventing any discomfort. This has been a key factor for recipients and their surgeons in the choice of implant, and will be even more so in the future, as there is increasing scrutiny surrounding claims of MRI compatibility by the US Food and Drug Administration. Advanced Bionics is well placed to meet the requirements of more stringent definitions of this claim.



HiRes™ Ultra 3D implant

In July 2019, Advanced Bionics launched a first in its field: AIM™ (Active Insertion Monitoring), a tablet-based solution that monitors the electrical signals produced by the cochlea in response to acoustic stimuli during implant surgery. It provides surgeons with invaluable insight into how their electrode insertion technique could affect the fine structures within the cochlea, much in the same way that proximity sensors allow us to park a car in a tight space without scratching the paint. Our hope is that less cochlear damage during surgery will correlate to better hearing performance. AIM is objective enough to provide reliable insight, convenient enough to be used in the operating room, and responsive enough to allow reaction in real time without compromising the pace of surgery. Moreover, AIM's speed and objectivity promise to give audiologists a quick and reliable way to gather cochlear implant performance data in a shop environment, bridging the information gap between the retail hearing aid provider and the cochlear implant clinic.



AIM™ (Active Insertion Monitoring) tablet

## Market and consumer access

The ten years since Advanced Bionics joined Sonova have combined a drive for innovation with a push to expand sales and geographical coverage. We have greatly increased our investment in clinical trials and research, reinforcing our reputation with key opinion leaders in all major geographical regions. We maintain a strong online presence to connect with current and potential recipients through information, advice, support groups and online communities – particularly important in times like the current COVID-19 pandemic, when recipients can feel isolated from the formal healthcare system.

As part of our collaboration with Phonak in establishing a “continuum of hearing care” for people with significant to complete hearing loss, we are working closely with the Audiological Care business and hearing aid retailers to identify potential candidates for cochlear implants. We follow up these leads through a dedicated consumer outreach salesforce, established this year in the US, which we intend to expand in additional markets. Our increased investment in the sales force follows the principles of commercial excellence, supporting our innovative products with a targeted approach that focuses, with the right messages, on high-potential partners, clinics, and markets.

## Improvement and optimization

Like Sonova’s other businesses, Advanced Bionics is committed to continuous improvement: in manufacturing efficiency, in sales effectiveness, and in profitability.

We have implemented daily management in our production sites and conduct intensive collaborative problem-solving sessions to identify bottlenecks or inefficiencies. One such session in our processor assembly unit led to a labor productivity improvement of over 40%, with a reduction of more than 30% in inventory held in the work cell. A similar exercise with colleagues from Audiological Care helped to establish a strong lead-generation framework for major European markets and defined the actions to extend this to other high-potential territories.

Continuous improvement raises profitability from both directions, reducing the cost of goods without compromising quality and raising average selling price through targeted sales and marketing. The increased revenue gives us the flexibility to invest further in R&D and commercial excellence, thus accelerating the virtuous cycle.



Cochlear Implants business

## Collaboration based on trust

The First Affiliated Hospital of Anhui Medical University is one of China's leading clinics for cochlear implants, and it is here that Dr. Jianxin Qiu has already fitted hundreds of devices manufactured by the Sonova brand Advanced Bionics. The two organizations work closely together, with four Advanced Bionics team members on site to consult with patients and advise the hospital.

Six-year-old Enhui Dai shakes hands with Dr. Jianxin Qiu before cheerfully answering all the physician's questions. Only the sound processor over the girl's right ear betrays the fact that Enhui wears a cochlear implant – she has been receiving regular follow-up care in the four years since Dr. Qiu fitted her with a device made by Sonova brand Advanced Bionics. 56-year-old Qiu, the highly respected doctor who runs the ear, nose and throat clinic at the First Affiliated Hospital of Anhui Medical University in the city of Hefei, is one of China's leading cochlear implant experts. Lina Yuan from the local Advanced Bionics team occasionally attends his consultations. Today, she has brought a stuffed toy dolphin that Enhui immediately clutches to her. She loves music and dancing and, once a week, joins other children with cochlear implants to sing in the "Little Dolphin Choir" founded by Advanced Bionics.





Anhui Medical University in Hefei, China

The well-being of cochlear implant recipients is of central importance to Advanced Bionics, as team member Lina Yuan explains: “We want to know how patients fare after the implants are fitted and we have set up two chat groups to find out. This allows hundreds of implant recipients to compare notes with one another and get in touch with us any time they have questions.” For Dr. Qiu, the joy experienced by cochlear implant-wearers at their new lives full of sounds and previously unheard voices is a constant source of motivation for his work – especially in the case of children. “They are extremely grateful and are always dropping in to see us. I’ve watched so many grow up until they tower over me.” Aftercare for recipients is just as important as the consultations in the run-up to surgery, says Lina Yuan, who holds clinics every day in the hospital. “I meet Dr. Qiu or advise patients who are waiting for their surgery.”



Enhui Dai with Dr. Jianxin Qiu

Dr. Qiu keeps in close touch with his patients and their parents. “At the time, Dr. Qiu told us that Enhui needs formal speech therapy,” recalls Yongqing Dai, the little girl’s father. He signed her up immediately and “she can now speak with complete ease”. You can see how happy it makes him.

Cochlear implants are fitted in about 200 hospitals in China. Dr. Qiu has been an expert in this innovative technology since 2005 and has himself fitted more than 800 implants manufactured by Advanced Bionics alone. Little Enhui wears the waterproof Neptune sound processor. “My child is going to wear this product for her entire life, so we picked the brand Advanced Bionics for her,” says her father.



“70% of cochlear implant recipients in China are children – something like 35,000 babies are born with hearing loss here every year,” explains Fei Liu, Advanced Bionics’ Country Director. Immediately after birth, every baby undergoes a hearing test that is provided free of charge to the parents. If this indicates potential hearing loss, it is followed up with a second test a few months later. “This is why hearing loss is identified in good time for a lot of children in China,” says Fei Liu. Enhui’s parents also found out early that their daughter would be needing a cochlear implant. “Initially, we felt helpless,” remembers Yongqing Dai. “We didn’t know a single child with such a problem.” The family learnt how a cochlear implant works over a series of consultations with the Advanced Bionics team, and then opted for the surgery. Advanced Bionics is strongly in favor of this kind of informative consultation, and Yuan is on site at the hospital every day to dispense advice, consulting regularly with Dr. Qiu.

One such cochlear implant recipient who comprehensively researched the technology and the various service providers before his surgery is Wei Chen. Now 35, he was diagnosed with hearing loss ten years ago. He had worn hearing aids initially, but these had been unable to provide satisfactory levels of hearing. As soon as he found out about cochlear implants, Chen got up to speed. “I chose Advanced Bionics because the sound is especially clear and the system features the most functions,” explains the qualified chef. His sound processor’s transmitter, which is attached to his scalp using a magnet, is easily visible – Wei Chen confidently sports his implant with short-cropped hair.

Chen’s implant was only activated two months ago, but he can already hold a normal conversation. “I had an interview only 18 days after activation and I got the job,” he says proudly – he can still hardly believe it. He can hear every sound around him in the kitchen where he now works, and can tell them all apart. “Before, I always had the feeling that the others were talking about me.” No wonder Wei Chen is happier and more relaxed these days. At home, he can understand his son much better, family conversations are not a problem and, if he feels like unwinding on his own, he listens to music.

In China, a lot of health insurers cover at least part of the costs for cochlear implants, as Fei Liu explains: “It’s at least 70% in Anhui Province.” As many Chinese citizens on low incomes have no health insurance, however, China’s provincial governments are buying implants for the uninsured and distributing them to hospitals. Service providers such as Advanced Bionics can then bid for these public contracts.

“Advanced Bionics’ market share has been constantly growing since it entered the marketplace in 2003,” reports Liu with satisfaction, adding that she had worked very closely with Dr. Qiu from the outset. “When we first started fitting cochlear implants here, there were still no express trains and it took a little while to get to Anhui,” remembers the doctor. “Even back then, Advanced Bionics were always prepared to support us by providing on-site staff.”