



Letter to shareholders

Dear shareholders,

[Successfully navigating the challenges imposed by the COVID-19 pandemic](#)

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

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

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

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

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

The market's strong fundamentals remain intact, despite short-term challenges from the pandemic.

Robert Spoerry

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

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

[Hearing Instruments segment](#)

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

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

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

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

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

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

Cochlear Implants segment

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

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

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

Financial performance

The results were significantly influenced both by the COVID-19 pandemic and the strengthening of the Swiss franc, which represented a strong headwind to growth. Nevertheless, through prompt implementation of cost savings and additional support measures, we were able to achieve strong results despite these challenges.

Group consolidated sales for the 2020/21 financial year were CHF 2,602 million, a decrease of 6.8% in local currencies and 10.8% in Swiss francs. The full-year figure reflects a steep decline in the first quarter, followed by a return to the prior-year level in the second quarter and sales growth in the second half-year.

Reported operating profit before acquisition-related amortization (EBITA) stood at CHF 663.3 million, up 30.5% in local currencies and 19.7% in Swiss francs. Adjusted for restructuring costs, an impairment of previously capitalized development costs and for a CHF 124.4 million one-time income item from a successful Advanced Bionics patent-infringement lawsuit, EBITA reached CHF 603.0 million, up 5.6% in local currencies but down 2.9% in Swiss francs. Adjusted earnings per share (EPS) were CHF 7.71, up 15.5% in local currencies and 4.3% in Swiss francs.

Sonova has maintained a strong cash flow, despite a challenging year. The Group ended the year with a net debt position of CHF 83.3 million, and the balance sheet remains solid. The equity ratio is 46.8%.

Returning cash to shareholders

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

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

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

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

Institutional investors increasingly evaluate companies based on recognized ESG performance as well as financial indicators. We are therefore very pleased that our progress in this area has been validated by indices such as the Dow Jones Sustainability Index and FTSE4Good, and that our ESG performance has been described for several years now as industry-leading by the relevant ratings agencies.

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

Changes to the Management Board and to the Board of Directors

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

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

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

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

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

Our thanks

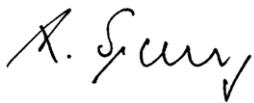
A crisis is, above all, a test of strength. After this eventful year, we have even more reasons to thank our employees for their strength to keep on innovating, improving, and expanding our solutions and businesses, despite all the challenges we have faced. Our customers and colleagues in the world of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

Outlook

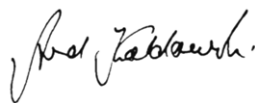
As we predicted in last year's letter, Sonova has grown faster than the market and increased its market share. The attractive fundamentals of the hearing care market remain intact despite the pandemic. There is pent-up demand to be satisfied and new demand emerging. We are confident that the strong recovery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

We are confident in a strong recovery and that Sonova is in an excellent position to continue to outperform the market.

Arnd Kaldowski



Robert Spoerry
Chair of the Board of Directors



Arnd Kaldowski
CEO