Financial report

Financial review

In the 2021/22 financial year, Sonova generated sales of CHF 3,363.9 million, up 29.0% in local currencies and 29.3% in Swiss francs. The strong increase was supported by a solid market recovery as well as a favorable comparison base due to the COVID-19 pandemic. Adjusted Group EBITA reached CHF 844.4 million, up 39.3% in local currencies and 40.0% in Swiss francs, representing a margin of 25.1%.

Strong growth – Sustained recovery despite residual challenges

Sonova Group sales reached CHF 3,363.9 million in the 2021/22 financial year, up 29.0% in local currencies and 29.3% in Swiss francs. The hearing care market continued to recover from the impacts of the COVID-19 pandemic, despite some regional differences and residual challenges. Compared to the 2019/20 financial year, which was only affected in its final weeks by the COVID-19 pandemic, sales were up 20.4% in local currencies, representing a two-year compound annual growth rate (CAGR) of 9.7%. Acquisitions, including the significant expansion of our audiological care store network and the addition of the Sennheiser Consumer Division in the final month of the financial year, contributed 2.4% to the growth. The impact from exchange rate fluctuations was minimal, adding 0.3%.

Sales by regions

in CHF m	2021/22			2020/21	
	Sales	Share	Growth in local currencies	Sales	Share
EMEA	1,775.9	53%	25.4%	1,416.6	54%
USA	1,009.8	30%	38.6%	732.2	28%
Americas (excl. USA)	244.6	7%	32.7%	178.2	7%
Asia/Pacific	333.6	10%	19.4%	275.0	11%
Total sales	**3,363.9**	**100%**	**29.0%**	**2,601.9**	**100%**

Solid recovery across all regions, led by strong growth in the United States

Sales in Europe, Middle East and Africa (EMEA) rose by 25.4% in local currencies. The rise was supported by the strong recovery of the private market in the UK, and by a change in the reimbursement system in France, which increased market volumes throughout 2021. Despite achieving significantly higher sales overall, some important markets – including Germany, Belgium and the Netherlands – were slower to recover, dampening growth in the region.

In the United States, sales increased by 38.6% in local currency. Sales growth was supported by the success of our most recent product introductions as well as by the renewal of a private label contract with a large hearing aid retailer. It was further aided by Sonova's leading position with the US Department of Veterans Affairs (VA) and the strong recovery in this market segment, which had been particularly hard hit by the pandemic in the prior year.

Sales in the rest of the Americas (excluding the US) increased by 32.7% in local currencies, helped by acquisitions but held back by a slow recovery in Canada. Sales in the Asia Pacific (APAC) region rose by 19.4% in local currencies, supported by a solid development in China but held back by temporary lockdowns in Australia and New Zealand.

Sonova Group key figures

in CHF m unless otherwise specified	2021/22	2020/21	Change in Swiss francs	Change in local currencies
Sales	3,363.9	2,601.9	29.3%	29.0%
Gross profit	2,460.7	1,873.5	31.3%	30.9%
EBITA [1]	802.9	663.3	21.0%	20.3%
EBIT [1]	760.0	619.5	22.7%	21.9%
Basic earnings per share (CHF)	10.42	9.23	13.0%	12.2%
Operating free cash flow [1]	763.7	602.4	26.8%	
ROCE [1]	24.1%	22.3%		
Gross profit (adjusted) [1]	2,463.7	1,880.2	31.0%	30.6%
EBITA (adjusted) [1]	844.4	603.0	40.0%	39.3%
EBITA margin (adjusted)	25.1%	23.2%		
Basic earnings per share (CHF) (adjusted) [1]	10.76	7.71	39.6%	38.7%

1) For details see table "Reconciliation of non-GAAP financial measures".

Further progress on profitability despite supply chain headwinds

Sonova continued to advance its profitability while increasing its growth investments. In line with measures taken in prior years, the Group implemented additional structural optimization initiatives, resulting in restructuring costs of CHF 13.5 million (2020/21: CHF 38.9 million). These steps are expected to yield annual cost savings of around CHF 15-20 million. The acquisition of the Sennheiser Consumer Division and Alpaca Audiology resulted in transaction and integration costs of CHF 12.0 million. In addition, the Group incurred costs of CHF 16.0 million related to a settlement agreement in principle with the US Department of Justice and ongoing patent litigation in the Cochlear Implants segment. As a result of tax reforms, income taxes were affected positively by CHF 17.5 million (2020/21: CHF 28.0 million).

In the 2020/21 financial year, the Group had also recorded one-time income of CHF 124.4 million related to the successful conclusion of a long-running patent infringement lawsuit.

Adjusted figures and growth rates in this financial review exclude these items. For more details, please refer to the table “Reconciliation of non-GAAP financial measures” at the end of the financial review.

Reported gross profit amounted to CHF 2,460.7 million. Adjusted gross profit rose by 30.6% in local currencies or 31.0% in Swiss francs to CHF 2,463.7 million. The adjusted gross profit margin was up 0.9 percentage points at 73.2%, reflecting the structural and continuous improvement measures as well as the increase in the sales volume. This positive development was partly offset by some pressure on average selling prices (ASPs) due to a further normalization of the channel mix and higher transportation and component costs, in part as a result of the pandemic.

Excluding acquisition-related amortization, reported operating expenses were CHF 1,657.7 million (2020/21: CHF 1,210.3 million). Adjusted operating expenses before acquisition-related amortization increased by 26.4% in local currencies or by 26.8% in Swiss francs to CHF 1,619.2 million. Adjusted research and development (R&D) expenses before acquisition-related amortization rose at a double-digit rate for the third consecutive year in a row, growing by 28.7% in local currencies to CHF 229.4 million. This clearly reflects the Group’s long-term commitment to invest continuously in innovation and to further advance Sonova’s industry leading portfolio of products and services.

Adjusted sales and marketing costs before acquisition-related amortization were CHF 1,090.1 million, an increase of 26.5% in local currencies, reflecting the higher sales volume, ongoing investments in customer-facing resources, and temporarily higher lead generation costs in the Audiological Care business. Adjusted general and administrative costs rose by 23.5% in local currencies to CHF 299.8 million or 8.9% of sales (2020/21: 9.3%). This development benefited from strong top-line growth as well as ongoing structural optimization initiatives. It also reflects ongoing investment in the new Audiological Care IT system, aimed at improving in-store and cross-business process efficiency. In addition, it was affected by a negative one-time impact from provisions related to the business in Russia. Adjusted other expenses were CHF 0.0 million (2020/21: CHF 1.4 million income).

Adjusted operating profit before acquisition-related amortization (EBITA) rose by 39.3% in local currencies or 40.0% in Swiss francs to CHF 844.4 million (2020/21: CHF 603.0 million). Compared to pre-pandemic levels in the 2019/20 financial year, adjusted EBITA was up by 48.2% in local currencies. The adjusted EBITA margin reached 25.1%, up 1.9 percentage points compared to the prior year and up 3.9 percentage points compared to the 2019/20 financial year. Exchange rate developments lifted the adjusted EBITA by CHF 4.6 million and the margin by 0.1 percentage points. Reported EBITA increased by 20.3% in local currencies and by 21.0% in Swiss francs to CHF 802.9 million. Acquisition-related amortization amounted to CHF 42.9 million (2020/21: CHF 43.8 million). Reported operating profit (EBIT) reached CHF 760.0 million (2020/21: CHF 619.5 million), up 22.7% in Swiss francs.

Strong increase in earnings per share

Driven by increased borrowings and bond issues, net financial expenses, including the result from associates, increased from CHF 19.1 million to CHF 31.8 million. Income taxes amounted to CHF 64.5 million. They were reduced by CHF 17.5 million from effects related to tax reforms and by CHF 26.6 million from the release of tax provisions. The underlying tax rate stood at 14.5% (2020/21: 12.5%). Basic earnings per share (EPS) reached CHF 10.42, up 13.0% in Swiss francs. Adjusted EPS increased by 38.7% in local currencies or 39.6% in Swiss francs to CHF 10.76, compared to CHF 7.71 in the prior year.

Employees

The Group’s total workforce at the end of March 2022 was 16,733 full-time equivalents. This represents an increase of 2,225 or 15.3% and largely reflects the recent acquisitions, including of the Sennheiser Consumer Division and Alpaca Audiology, as well as continued investment in R&D and customer-facing staff to support further growth.

Hearing Instruments segment – Strong organic growth and support from acquisitions

Sales in the Hearing Instruments segment reached CHF 3,084.0 million, an increase of 27.2% in local currencies compared to the prior year. Sales were up 19.8% in local currencies compared to the 2019/20 financial year, representing a two-year CAGR of 9.4%. The global hearing care market continued its recovery, despite some regional differences and residual challenges. Organic sales growth reached 24.7%, while the contribution from acquisitions in the reporting period (including the full-year effect of prior year acquisitions) lifted sales by 2.6% or CHF 63.3 million. This includes the recently completed acquisitions of the Sennheiser Consumer Division and Alpaca Audiology, which were consolidated in the final month of the 2021/22 financial year. Exchange rate fluctuations contributed CHF 8.2 million or 0.3% in Swiss francs, resulting in a reported sales growth of 27.6%.

The Hearing Instruments business generated sales of CHF 1,838.4 million, rising by 25.4% in local currencies. Important contributors to the positive momentum were the continued strong customer response to the Phonak Paradise platform, which was further extended, as well as the successful launch of the Unitron BLU platform. Average selling prices (ASPs) were under pressure as a result of the further normalization of the channel mix.

Sales the Audiological Care business were CHF 1,236.8 million, up 29.1% in local currencies. Organic growth reached 23.4% with acquisitions adding 5.7%. Bolt-on acquisition activity accelerated throughout the year with a focus on the United States, Australia, Germany and France. Momentum in the second half was negatively affected by some capacity constraints related to the surge in the COVID-19 Omicron variant. The highlight was the acquisition of Alpaca Audiology, one of the largest independent networks of audiological care clinics in the United States with around 220 clinics. With this acquisition, Sonova has doubled its US network.

Following the successful completion of the acquisition of the Sennheiser Consumer Division on March 1, 2022, the newly formed Consumer Hearing business generated sales of CHF 8.8 million during the final month of financial year 2021/22. The new business provides a strong platform for growth by combining Sennheiser’s globally-recognized brand, established consumer sales channels, and strong know-how in sound delivery with Sonova’s comprehensive expertise in audiological performance and miniaturization.

Sales by business – Hearing Instruments segment

in CHF m	2021/22			2020/21	
	Sales	Share	Growth in local currencies	Sales	Share
Hearing Instruments business	1,838.4	60%	25.4%	1,463.9	61%
Audiological Care business	1,236.8	40%	29.1%	953.5	39%
Consumer Hearing business	8.8	<1%	n/a	n/a	n/a
Total Hearing Instruments segment	**3,084.0**	**100%**	**27.2%**	**2,417.3**	**100%**

Reported EBITA for the Hearing Instruments segment amounted to CHF 782.9 million, an increase of 34.2% in local currencies. Adjusted EBITA increased by 30.2% in local currencies to CHF 807.2 million, corresponding to an EBITA margin of 26.2% (2020/21: 25.5%). Exchange rate fluctuations did not have a material impact on the margin development compared to the prior year.

Cochlear Implants segment – Return to profitable growth

The Cochlear Implants business achieved sales of CHF 279.9 million, an increase of 51.7% both in local currencies and in Swiss francs versus prior year. The strong growth was driven by the success of two recently launched sound processors – Naída™ CI Marvel for adults and Sky CI™ Marvel designed for children. Elective surgeries picked up at the start of the year but volumes were negatively affected by supply shortages as well as by rising infection rates from COVID-19 variants leading to hospital staffing shortages in the second half of the 2021/22 financial year.

Sales by product groups – Cochlear Implants segment

in CHF m	2021/22			2020/21	
	Sales	Share	Growth in local currencies	Sales	Share
Cochlear implant systems	175.8	63%	35.7%	129.3	70%
Upgrades and accessories	104.1	37%	88.9%	55.2	30%
Total Cochlear Implants segment	**279.9**	**100%**	**51.7%**	**184.5**	**100%**

Reported EBITA for the Cochlear Implants segment reached CHF 19.7 million. This includes costs related to the above-mentioned settlement agreement in principle and patent litigation of CHF 16.0 million. In the prior year, the reported EBITA of CHF 82.4 million had included restructuring costs of CHF 2.3 million, a one-time income of CHF 124.4 million from the award in a patent infringement lawsuit and a CHF 25.3 million impairment of capitalized development costs. Supported by the strong revenue development as well as good progress made in our productivity improvement and efficiency enhancement measures, the adjusted EBITA reached CHF 36.8 million (2020/21: adjusted EBITA loss of CHF 14.3 million). This resulted in an adjusted EBITA margin of 13.2%, reaching double-digits for the first time in the history of the segment.

Solid cash flow

Cash flow from operating activities was CHF 941.1 million, up 23.1% compared to the prior year. Main driver for the increase was the strong operating result, supported by less tax payments (timing impacts) and positive impact from the changes in net working capital mainly in regards to trade payables. Net investments in tangible and intangible assets increased to CHF 104.8 million (2020/21: CHF 86.8 million), reflecting a normalization in capital expenditure after the reduction during the height of the pandemic. Operating free cash flow increased by 26.8% to CHF 763.7 million.

With the increase in M&A activity, including the acquisition of the Sennheiser Consumer Division and Alpaca Audiology, the cash consideration for acquisitions increased significantly to CHF 596.2 million (2020/21: CHF 30.5 million). In summary, this resulted in a free cash flow of CHF 167.6 million (2020/21: CHF 571.9 million). The cash outflow from financing activities of CHF 1,392.4 million reflects the repayment of a bond of CHF 360.0 million, the dividend payment of CHF 201.6 million and net share repurchases of CHF 731.6 million, mainly related to the share buyback program.

Sound balance sheet – Further increase in return on capital

Net working capital fell to CHF –15.0 million, compared to CHF 29.6 million at the end of the prior year. Receivable collection continued to be strong while the Group allowed for an increase in inventories related to safety stock to manage supply shortages of microelectronic components. Increase in short term assets was over-compensated by an increase in trade payables of CHF 86.0 million and additional increases mainly in regards to VAT and withholding tax payables (share buy-back program). Driven mainly by the higher M&A activity, capital employed increased to CHF 3,439.1 million compared to CHF 2,855.7 million at the end of March 2021.

The Group's equity position amounted to CHF 2,432.8 million, down from CHF 2,772.5 million in the previous year. The result was an equity ratio of 43.5%. This was mainly driven by share purchases under the share buyback program and dividend payments. Coupled with the higher acquisition activity this resulted in an increase of the net debt position, which reached CHF 1,006.3 million compared to CHF 83.3 million at the end of the prior year. The return on capital employed (ROCE) improved significantly to 24.1% from 22.3% in the prior year.

Outlook 2022/23

Recent developments have clearly demonstrated that the attractive fundamentals of the hearing care market remain intact. Despite certain supply chain constraints and variations in market recovery rates, healthy demand will continue to support further market recovery, barring a further deterioration of the geopolitical situation. Sonova's growth focus, founded on innovation, targeted go-to-market investments, and ever closer consumer contact, puts it in an excellent position both to expand the overall market and to increase its market share. Supported by this, Sonova expects consolidated sales to increase by 17%-21% at constant exchange rates, along with a further growth in profits.

Reconciliation of non-GAAP financial measures

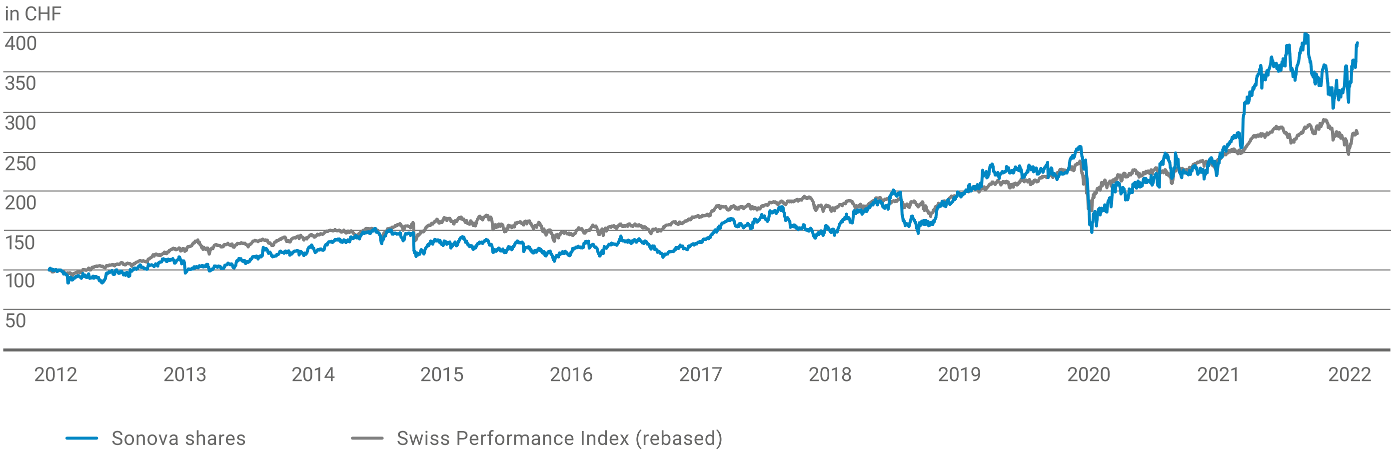
April 1 to March 31, CHF million								2021/22
	Income statement as reported	Acquis. related amortization	**Income statement EBITA separation**	Restructuring costs	Tax reforms	Transaction and integration costs	Settlement agreement in principle and patent litigation	**Income statement adjusted**
Sales	**3,363.9**		**3,363.9**					**3,363.9**
Cost of sales	(903.3)		(903.3)	3.0				(900.3)
Gross profit	**2,460.7**		**2,460.7**	**3.0**				**2,463.7**
Research and development	(230.5)	0.6	(230.0)	0.6				(229.4)
Sales and marketing	(1,137.6)	42.4	(1,095.3)	4.8		0.4		(1,090.1)
General and administration	(320.9)		(320.9)	5.1		11.7	4.4	(299.8)
Other income/(expenses), net	(11.5)		(11.5)				11.6	0.0
Operating profit before acquisition-related amortization (EBITA) [1]			**802.9**	**13.5**		**12.0**	**16.0**	**844.4**
Acquisition-related amortization		(42.9)	(42.9)					(42.9)
Operating profit (EBIT) [2]	**760.0**		**760.0**	**13.5**		**12.0**	**16.0**	**801.5**
Basic earnings per share (CHF)	**10.42**		**10.42**	**0.18**	**(0.28)**	**0.17**	**0.26**	**10.76**

1) Earnings before financial result, share of profit/(loss) in associates/joint ventures, taxes and acquisition-related amortization (EBITA).
2) Earnings before financial result, share of profit/(loss) in associates/joint ventures and taxes (EBIT).

April 1 to March 31, CHF million								2020/21
	Income statement as reported	Acquis. related amortization	**Income statement EBITA separation**	Restructuring costs	Tax reforms	Patent infringement lawsuit income	Impairment of capitalized development cost	**Income statement adjusted**
Sales	**2,601.9**		**2,601.9**					**2,601.9**
Cost of sales	(728.3)		(728.3)	6.6				(721.7)
Gross profit	**1,873.5**		**1,873.5**	**6.6**				**1,880.2**
Research and development	(204.8)	0.9	(203.9)	0.7			25.3	(177.9)
Sales and marketing	(924.1)	42.9	(881.2)	22.6				(858.6)
General and administration	(250.9)		(250.9)	8.9				(242.0)
Other income/(expenses), net	125.8		125.8			(124.4)		1.4
Operating profit before acquisition-related amortization (EBITA) [1]			**663.3**	**38.8**		**(124.4)**	**25.3**	**603.0**
Acquisition-related amortization		(43.8)	(43.8)	0.0				(43.7)
Operating profit (EBIT) [2]	**619.5**		**619.5**	**38.9**		**(124.4)**	**25.3**	**559.3**
Basic earnings per share (CHF)	**9.23**		**9.23**	**0.50**	**(0.45)**	**(1.98)**	**0.40**	**7.71**

1) Earnings before financial result, share of profit/(loss) in associates/joint ventures, taxes and acquisition-related amortization (EBITA).
2) Earnings before financial result, share of profit/(loss) in associates/joint ventures and taxes (EBIT).

Share price development – Sonova versus Swiss Performance Index (rebased)



Share price performance history[1]

	10 years	5 years	3 years	2 years	1 year
Sonova shares	286.4%	179.0%	96.8%	122.2%	54.8%
Swiss Performance Index (SPI) [2]	171.9%	61.2%	38.2%	37.3%	10.9%
Sonova shares relative to the SPI	114.6%	117.8%	58.5%	85.0%	43.9%

1) Performance of the Sonova shares and SPI refers to the respective period prior to the last trading day of the 2021/22 financial year.
2) The Swiss Performance Index (SPI) is considered Switzerland's overall stock market index. It comprises practically all of the SIX Swiss Exchange-traded equity securities of companies that are domiciled in Switzerland or the Principality of Liechtenstein.