Financial report

Financial review

In the 2022/23 financial year, Sonova generated sales of CHF 3,738.4 million, up 14.6% in local currencies and 11.1% in Swiss francs. The development was significantly affected by a slowing market momentum due to the challenging macroeconomic environment. Adjusted Group EBITA reached CHF 840.4 million, up 6.1% in local currencies and down 0.5% in Swiss francs, representing a margin of 22.5%.

Sales development driven by acquisitions and solid organic growth

Sonova Group sales reached CHF 3,738.4 million in the 2022/23 financial year, an increase of 14.6% in local currencies and 11.1% in Swiss francs. Sales were supported by the successful launch of the Phonak Lumity platform in August 2022, as well as by price increases implemented to offset inflationary pressures. The development was held back by a slower than anticipated momentum in certain key hearing care markets, and the non-renewal of a large contract with a single US customer. Groupwide organic growth was 2.3%, or 4.5% excluding the previously mentioned non-renewal of a large contract. Acquisitions, including the significant expansion of Sonova's audiological care network with the acquisition of Alpaca Audiology in the United States and of HYSOUND in China, and the addition of the Sennheiser Consumer Division, contributed 12.3% to sales growth. Exchange rate fluctuations had a significant negative impact, reducing reported sales by CHF 116.3 million or 3.5%.

Sales by regions

in CHF m	2022/23			2021/22	
	Sales	Share	Growth in local currencies	Sales	Share
EMEA	1,868.2	50%	13.1%	1,775.9	53%
USA	1,150.0	31%	9.5%	1,009.8	30%
Americas (excl. USA)	274.0	7%	11.2%	244.6	7%
Asia/Pacific	446.2	12%	40.3%	333.6	10%
Total sales	**3,738.4**	**100%**	**14.6%**	**3,363.9**	**100%**

Slowing market momentum affecting growth

Sales in Europe, Middle East and Africa (EMEA) were up 13.1% in local currencies. Despite macroeconomic headwinds, the development in some countries, including the Netherlands and Austria, and in distributor markets, remained robust. Growth was further lifted by the acquisition of the Sennheiser Consumer Division as well as the continued expansion of the audiological care network. Regional growth was dampened, however, by weak sales development in France after increased prior-year market volumes resulting from a change in the reimbursement system in 2021, along with softness in the UK private market and slowing momentum in Germany in the second half of the financial year.

In the United States, sales increased by 9.5% in local currency. Growth was driven by the expansion of the audiological care network, in particular through the acquisition of Alpaca Audiology. The country's relatively high proportion of out-of-pocket spending to meet hearing care costs meant that the US private market was negatively impacted by the macroeconomic headwinds in the 2022 calendar year, although it showed signs of recovery in the final quarter of the 2022/23 financial year. The non-renewal of a large hearing instruments contract with a single customer in the US also weighed significantly on sales in the second half of the 2022/23 financial year. This could only be partly offset by positive growth in deliveries to the US Department of Veterans Affairs (VA), where Sonova continues to hold a leading position.

Sales in the rest of the Americas (excluding the US) rose by 11.2% in local currencies, helped by acquisitions and the solid performance of the audiological care network in Canada and Brazil. Sales in the Asia Pacific (APAC) region increased by 40.3% in local currencies, driven by the acquisition of the Sennheiser Consumer Division, and further lifted by the acquisition of HYSOUND in China, which was completed in December 2022. Sales development also benefited from a low comparison base, due to pandemic-related lockdowns in the prior year.

Sonova Group key figures

in CHF m unless otherwise specified	2022/23	2021/22	Change in Swiss francs	Change in local currencies
Sales	3,738.4	3,363.9	11.1%	14.6%
Gross profit	2,637.4	2,460.7	7.2%	11.6%
EBITA [1]	801.6	802.9	(0.2%)	6.7%
EBIT [1]	746.7	760.0	(1.7%)	5.2%
Basic earnings per share (CHF)	10.75	10.42	3.2%	11.4%
Operating free cash flow [1]	535.6	763.7	(29.9%)	
ROCE [1]	20.8%	24.1%		
Gross profit (adjusted) [1]	2,645.1	2,463.7	7.4%	11.8%
EBITA (adjusted) [1]	840.4	844.4	(0.5%)	6.1%
EBITA margin (adjusted)	22.5%	25.1%		
Basic earnings per share (CHF) (adjusted) [1]	11.14	10.76	3.5%	11.5%

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

Stable organic margin development – Currency headwinds and dilution from acquisitions

In response to the macroeconomic challenges, Sonova accelerated its structural optimization initiatives over the course of the reporting period, resulting in restructuring costs of CHF 15.6 million (2021/22: CHF 13.5 million). The focus of these initiatives was on supply chain safety, including the new operations facility in Mexico serving the entire Americas region, and further network optimization in the Audiological Care business. The initiatives are expected to yield annual cost savings of around CHF 25 million once fully implemented. The acquisition of the Sennheiser Consumer Division, Alpaca Audiology, and HYSOUND resulted in transaction and integration costs of CHF 17.0 million (2021/22: CHF 12.0 million). In addition, the Group incurred legal costs of CHF 6.2 million, mainly related to ongoing patent litigation (2021/22: CHF 16.0 million, including a settlement agreement in principle with the US Department of Justice). Income taxes were positively affected by CHF 9.2 million as a result of tax reforms (2021/22: CHF 17.5 million).

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

Reported gross profit amounted to CHF 2,637.4 million. Adjusted gross profit rose by 11.8% in local currencies or 7.4% in Swiss francs to CHF 2,645.1 million. Pressure on the global average selling price (ASP) due to subdued volume growth in higher-price hearing care markets was offset by the previously mentioned price increases. Profit development was also affected by continued headwinds from high transport and component costs, although these eased towards the end of the financial year. The expected dilutive effect from the acquisition of the Sennheiser Consumer Division, coupled with adverse currency exchange rate effects, made for a 2.4 percentage point decline in the adjusted gross profit margin in Swiss francs, to 70.8%. In local currencies, the gross profit margin was down 1.8 percentage points from the prior year, but showed a significant sequential improvement in the second half-year.

Excluding acquisition-related amortization, reported operating expenses were CHF 1,835.8 million (2021/22: CHF 1,657.7 million). Adjusted operating expenses before acquisition-related amortization increased 14.7% in local currencies or 11.5% in Swiss francs to CHF 1,804.7 million (2021/22: CHF 1,619.2 million). Over 80% of the increase was driven by acquisitions. The Group continued to invest in innovation, with adjusted research and development (R&D) expenses before acquisition-related amortization up by 6.2% in local currencies to CHF 242.9 million.

Adjusted sales and marketing costs before acquisition-related amortization increased by 19.1% in local currencies to CHF 1,250.6 million or 33.5% of sales (2021/22: 32.4%). This was largely driven by a shift in the business mix due to the continued expansion of the Audiological Care business, which has a higher ratio of sales and marketing costs to sales than the rest of the Group, as well as the acquisition of the Sennheiser Consumer Division. Adjusted general and administration costs before acquisition-related amortization rose by 6.3% in local currencies, reaching CHF 311.9 million or 8.3% of sales (2021/22: 8.9%). This rise was almost exclusively driven by acquisitions, partly offset by the benefit from structural optimization initiatives. In addition, costs in the 2021/22 financial year were affected by a negative one-time impact from provisions related to the business in Russia. Adjusted other income was CHF 0.6 million (2021/22: zero).

Adjusted operating profit before acquisition-related amortization (EBITA) rose by 6.1% in local currencies and declined by 0.5% in Swiss francs to CHF 840.4 million (2021/22: CHF 844.4 million). The adjusted EBITA margin reached 22.5%, down 2.6 percentage points compared to the prior year but up 0.3 percentage points in local currencies excluding acquisitions. Exchange rate developments reduced the adjusted EBITA by CHF 55.5 million and the margin by 0.7 percentage points. Reported EBITA grew by 6.7% in local currencies but declined by 0.2% in Swiss francs to CHF 801.6 million. Acquisition-related amortization amounted to CHF 54.9 million (2021/22: CHF 42.9 million), reflecting recent acquisitions. Reported operating profit (EBIT) reached CHF 746.7 million (2021/22: CHF 760.0 million), down 1.8% in Swiss francs.

Solid increase in EPS

Net financial expenses, including the result from associates, were largely unchanged at CHF 31.0 million (2021/22: CHF 31.8 million). Income taxes amounted to CHF 57.4 million (2021/22: CHF 64.5 million). Income taxes were reduced by CHF 9.2 million due to effects related to tax reforms (2021/22: CHF 17.5 million), and by CHF 0.5 million from the release of tax provisions (2021/22: CHF 26.6 million). The underlying tax rate stood at 9.7% (2021/22: 14.5%). This reflects the temporary impact of the later than expected implementation of the global minimum tax (Pillar 2), as well as considering the temporary initial safe harbor exemptions and related impact on deferred tax balances. Basic earnings per share (EPS) reached CHF 10.75, up 11.4% in local currencies or 3.2% in Swiss francs. Adjusted EPS rose 11.5% in local currencies or 3.5% in Swiss francs to CHF 11.14, compared to CHF 10.76 in the prior year.

Hearing Instruments segment – Growth mainly driven by acquisitions

Sales in the Hearing Instruments segment reached CHF 3,451.5 million, an increase of 15.7% in local currencies and 11.9% in Swiss francs compared to the prior year. Organic development was held back by slower than anticipated momentum in certain key hearing care markets, and the non-renewal of a contract with a large US customer, partly offset by price increases. Organic sales growth reached 2.3%, while the contribution from acquisitions in the reporting period (including the full-year effect of prior year acquisitions) lifted sales by 13.4% or CHF 412.9 million. Key contributors were the acquisitions of the Sennheiser Consumer Division and Alpaca Audiology, which were only consolidated in the final month of the 2021/22 financial year. Exchange rate fluctuations reduced reported sales by CHF 115.4 million or 3.7% in Swiss francs.

The Hearing Instruments business generated sales of CHF 1,809.3 million, up by 0.2% in local currencies. Sales development was supported by a favorable market response to the new Phonak Lumity platform launched at the end of August 2022, but was held back in the second half of the financial year by the previously mentioned non-renewal of a contract with a large US customer. Excluding the latter, organic growth of the business reached 4.1%. Pressure on the global ASP from a shift in the country mix was compensated by price increases, resulting in a positive ASP development for the year.

The recently formed Consumer Hearing business generated sales of CHF 284.3 million. Despite a challenging consumer devices market, the recently acquired Sennheiser Consumer Division delivered on plan, supported by a series of successful product launches, including the MOMENTUM True Wireless 3 earbuds and the MOMENTUM 4 wireless noise-canceling headphones. With the introduction of the Sennheiser Conversation Clear Plus, the Consumer Hearing business established a new category of early-entry hearing solutions, a key strategic rationale for acquiring the Sennheiser Consumer Division.

Sales in the Audiological Care business were CHF 1,357.8 million, up 15.7% in local currencies. Organic growth reached 4.5%, supported by good growth in Canada, the Netherlands, the Nordic countries, and Austria. Bolt-on acquisition activity remained high throughout the year, with a particular focus on the United States, Canada, Germany, and France. A key highlight was the acquisition of HYSOUND, completed in December 2022; this added around 200 clinics in the fast-growing China market and provides a strong platform for further expansion. In total, acquisitions lifted sales by 11.2%, primarily from the acquisition of Alpaca Audiology in the United States. Including new store openings, the number of points of sale rose by over 300 to more than 3,900.

Sales by business – Hearing Instruments segment

in CHF m	2022/23			2021/22	
	Sales	Share	Growth in local currencies	Sales	Share
Hearing Instruments business	1,809.3	53%	0.2%	1,838.4	60%
Consumer Hearing business	284.3	8%	n/m	8.8	<1%
Audiological Care business	1,357.8	39%	15.7%	1,236.8	40%
Total Hearing Instruments segment	**3,451.5**	**100%**	**15.7%**	**3,084.0**	**100%**

Reported EBITA for the Hearing Instruments segment amounted to CHF 771.4 million, up 4.8% in local currencies. Adjusted EBITA increased by 5.7% in local currencies to CHF 804.5 million, corresponding to an EBITA margin of 23.3% (2021/22: 26.2%). The margin decline was driven exclusively by acquisitions and the adverse impact from exchange rate fluctuations.

Cochlear Implants segment – Solid growth in system sales

Sales in the Cochlear Implants business reached CHF 286.9 million, an increase of 2.8% in local currencies or 2.5% in Swiss francs. This was achieved despite supply constraints and hospital staffing shortages. System sales were up by 5.1% in local currencies, reflecting strong growth in North America, but were held back by an injunction, which prevented Advanced Bionics from selling its HiRes™ Ultra 3D cochlear implant in and from Germany (until the temporary suspension of the enforcement of the injunction in October 2022). Sales of upgrades and accessories were supported by the continued global rollout of the Naída™ CI Marvel and Sky CI™ Marvel sound processors. Against a high comparison base, sales declined by 1.0% in local currencies.

Sales by product groups – Cochlear Implants segment

in CHF m	2022/23			2021/22	
	Sales	Share	Growth in local currencies	Sales	Share
Cochlear implant systems	185.4	65%	5.1%	175.8	63%
Upgrades and accessories	101.5	35%	(1.0%)	104.1	37%
Total Cochlear Implants segment	**286.9**	**100%**	**2.8%**	**279.9**	**100%**

Reported EBITA for the Cochlear Implants segment was CHF 30.1 million. The adjusted EBITA reached CHF 35.9 million (2021/22: CHF 36.8 million), representing a margin of 12.5% (2021/22: 13.2%). The margin development was adversely impacted by the strength of the US dollar. Excluding currency developments, the margin improved by 1.5 percentage points.

Cash flow

Cash flow from operating activities reached CHF 783.9 million (2021/22: CHF 941.1 million). The development was in part due to higher tax payments, cash outflows related to product liabilities, and stable trade payables (these had increased in 2021/22). It also reflects the build-up of trade receivables related to the acquisition of the Sennheiser Consumer Division. Net purchase of tangible and intangible assets increased to CHF 152.3 million (2021/22: CHF 104.8 million), driven by investments in infrastructure, including the new operations facility for the Americas region in Mexico, which will expand Sonova's global manufacturing capabilities for the Hearing Instruments and Cochlear Implants businesses, and in IT projects. This resulted in an operating free cash flow of CHF 535.6 million (2021/22: CHF 763.7 million).

Reflecting the continued expansion of the Group's audiological care network, the cash consideration for acquisitions, including HYSOUND in China, amounted to CHF 261.1 million. This is down from CHF 596.2 million in the prior year, which included the acquisition of the Sennheiser Consumer Division and Alpaca Audiology. In summary, this resulted in a free cash flow of CHF 274.4 million (2021/22: CHF 167.6 million). The cash outflow from financing activities of CHF 545.2 million reflects the dividend payment of CHF 267.6 million and net share repurchases of CHF 486.5 million, mainly related to the share buyback program, partly offset by net proceeds from borrowings of CHF 319.2 million.

Balance sheet

Cash and cash equivalents stood at CHF 413.9 million compared to CHF 610.5 million at the end of the 2021/22 financial year. Net working capital was CHF 89.5 million (end of 2021/22: CHF – 15 million). Receivable collection continued to be strong while the Group maintained higher safety stock to address supply shortages of microelectronic components. The increase mainly reflects the previously mentioned build-up of trade receivables related to the acquisition of the Sennheiser Consumer Division, along with lower accruals. Driven mainly by the higher M&A activity, capital employed increased to CHF 3,727.3 million compared to CHF 3,439.1 million at the end of the 2021/22 financial year.

The Group's equity of CHF 2,231.4 million represents an equity ratio of 40.2%, down from 43.5% at end of the 2021/22 financial year. The decrease mainly reflects share purchases under the share buyback program, dividend payments, and negative currency effects. Purchases of CHF 421.5 million under the new share buyback program also impacted the net debt position, which increased to CHF 1,495.9 million compared to CHF 1,006.3 million at the end of March 2022. The net debt/EBITDA ratio stood at 1.5x, which is at the upper end of Sonova's target range of 1.0 – 1.5x. The return on capital employed (ROCE) reached 20.8% compared to 24.1% in the prior year.

Outlook 2023/24

The fundamentals of Sonova's business remain strong despite ongoing macroeconomic volatility. With its proven strategy and continued innovation, the Group is well prepared to capture growth opportunities in the attractive hearing care market. This market has shown signs of recovery in recent months, although uncertainty remains in the short term. For the 2023/24 financial year, Sonova expects consolidated sales to increase by 3% – 7% and adjusted EBITA to grow in the range of 6% – 10%, measured at constant exchange rates.

Reconciliation of non-GAAP financial measures

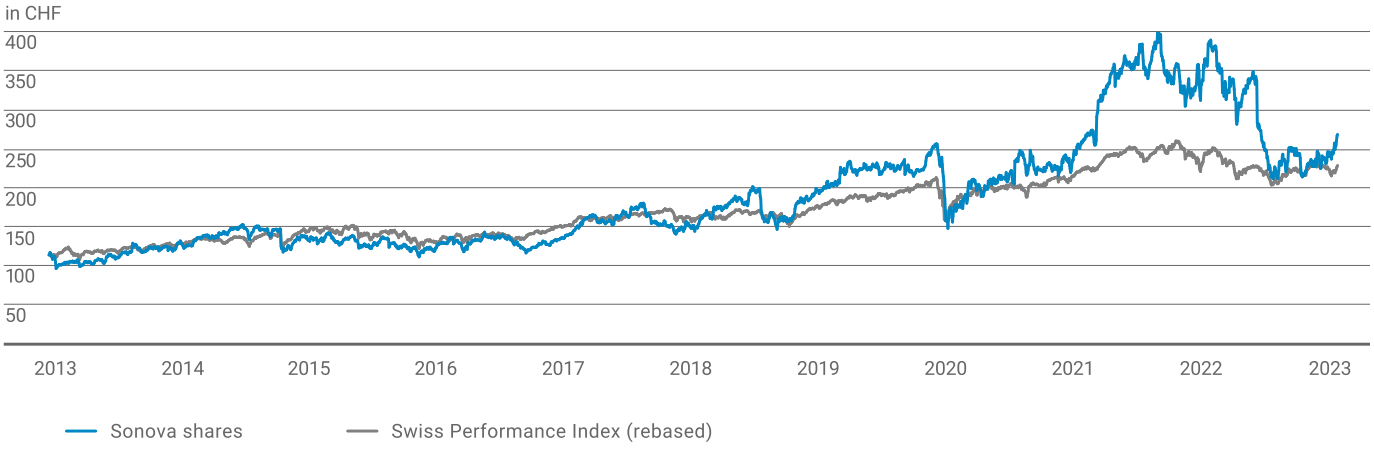
April 1 to March 31, CHF million								2022/23
	Income statement as reported	Acquis. related amortization	**Income statement EBITA separation**	Restructuring costs	Tax reforms	Transaction and integration costs	Litigation costs	**Income statement adjusted**
Sales	**3,738.4**		**3,738.4**					**3,738.4**
Cost of sales	(1,101.0)		(1,101.0)	7.6		0.2		(1,093.3)
Gross profit	**2,637.4**		**2,637.4**	**7.6**		**0.2**		**2,645.1**
Research and development	(244.6)	1.6	(243.0)	0.2				(242.9)
Sales and marketing	(1,316.4)	53.3	(1,263.1)	6.4		6.2		(1,250.6)
General and administration	(330.2)		(330.2)	1.5		10.6	6.2	(311.9)
Other income/(expenses), net	0.6		0.6					0.6
Operating profit before acquisition-related amortization (EBITA) [1]			**801.6**	**15.6**		**17.0**	**6.2**	**840.4**
Acquisition-related amortization		(54.9)	(54.9)					(54.9)
Operating profit (EBIT) [2]	**746.7**		**746.7**	**15.6**		**17.0**	**6.2**	**785.5**
Basic earnings per share (CHF)	**10.75**		**10.75**	**0.20**	**(0.15)**	**0.24**	**0.10**	**11.14**

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								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).

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	135.8%	76.9%	54.0%	7.3%	(30.7%)
Swiss Performance Index (SPI) [2)]	100.8%	42.8%	28.5%	3.8%	(6.4%)
Sonova shares relative to the SPI	35.0%	34.2%	25.5%	3.5%	(24.3%)

1) Performance of the Sonova shares and SPI refers to the respective period prior to the last trading day of the 2022/23 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.