

THE HEARING CARE COMPANY

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FULL-YEAR 2010/11 RESULTS

–*Analyst Conference*

Zurich, 24 May 2011



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Agenda

➤ Highlights 2010/11	Alexander Zschokke
➤ Business Review	Alexander Zschokke
➤ Financial Review	Paul Thompson
➤ Positioning / Strategy	Alexander Zschokke
➤ Outlook	Paul Thompson

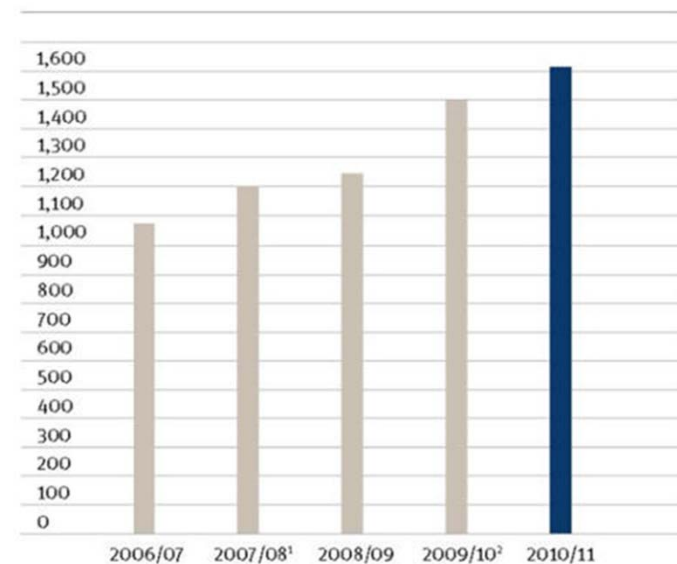
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01.
HIGHLIGHTS

Highlights 2010/11

- **Sales record of CHF 1,617 million**
 - Total sales growth of +13.3% in lc
 - Negative currency effect of 5.6%
- **All regions contributing to sales growth**
- **Solid core business hearing instruments**
 - Growth of 10.1% in lc
 - EBITA margin of 24.0%
- **Lower Group EBITA margin of 20.2%**
- **Unchanged distribution of CHF 1.20 per share**

SALES
in CHF m



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02.
BUSINESS REVIEW

The hearing solutions market

HEARING CARE SOLUTIONS

Type of hearing loss:

sensorineural			Hearing instruments	Cochlear implants
mixed			DACS	
conductive			Bone anchored hearing systems	
Degree of hearing loss:	mild	moderate (40 to 70 dB)	severe (70 to 90 dB)	profound



Market trends

Market fundamentals

- Aging population and ongoing population growth
- More people with hearing impairment due to noise pollution
- Increasingly young age for hearing damage
- Sustained margins

Market growth

- Low penetration rates
- 16% of population is hearing impaired
- Rising disposable incomes in emerging markets
- Market growth for hearing instruments estimated at 4-5% in units

Competitive environment

- Sonova market leader
- Competitive situation for Sonova unchanged
- Several new products from competitors launched



Hearing Instruments Segment

Sonova's market position

- Market leader in hearing instruments
- Record turnover of CHF 1,546 million, contributing 96% to Group turnover
- Above market growth at an organic growth rate of 5.8% in 1c

Achievements 2010/11

- Successful introduction of Spice technology platform and new products
- First class products achieving highest growth rates and gaining market share
- Solid demand in the US – positive momentum in private market and maintaining high VA market share
- Germany, France and UK showed strongest momentum in Europe
- Strong growth in the Americas, especially in Brasil
- Lyric initial roll-out in key markets

Challenges 2010/11

- Spice launch
- Unitron: timing of product launches, management changes



Hearing Instruments Segment: Transition to Spice completed

Spice technology platform

– Conversion

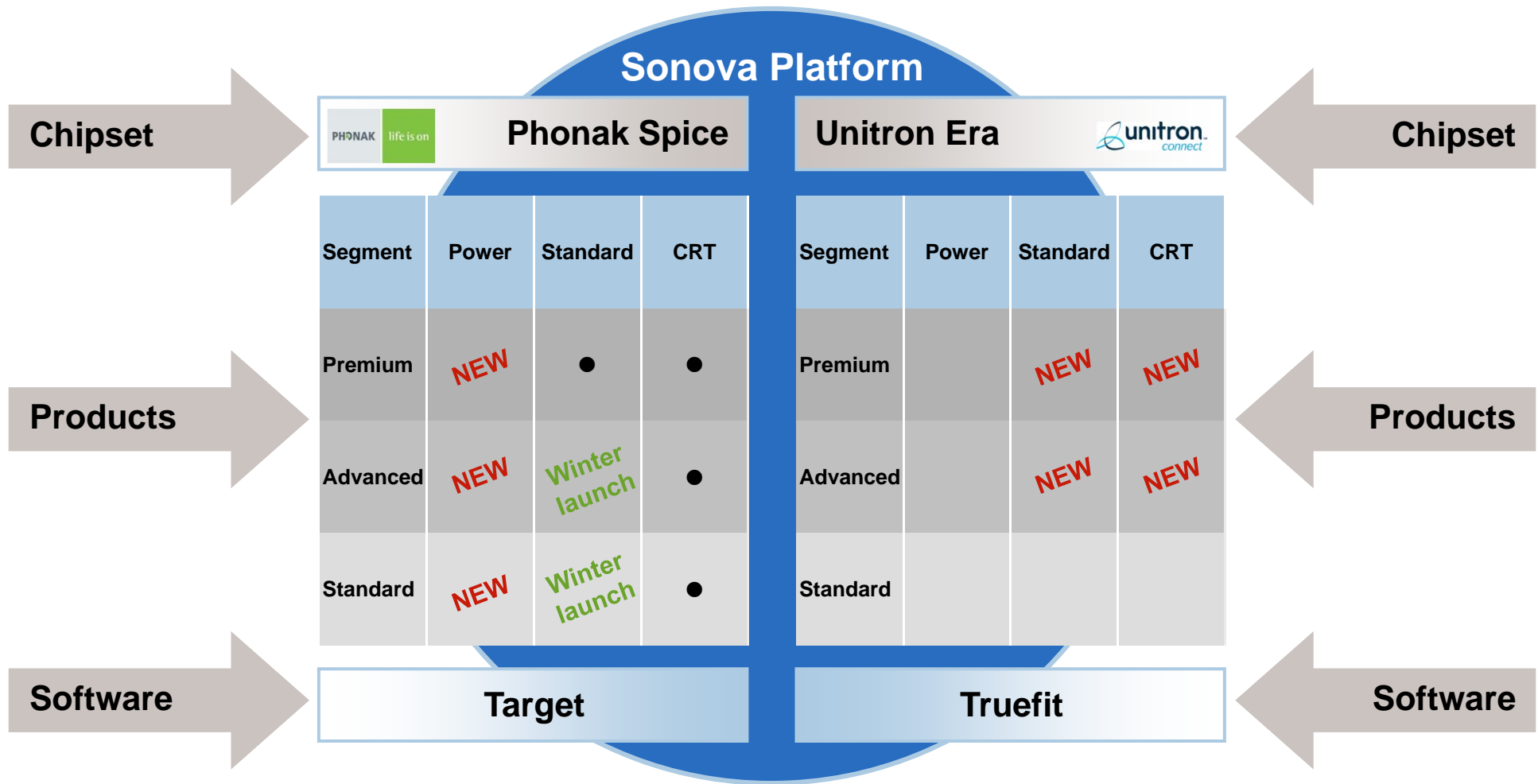
- Full-portfolio transitioned to Spice in 7 months
- Excellent conversion rates in US after slow start and delay of 2 months
- Swift conversion in France
- Launch in Germany with insufficient support
- “Teething” problems

– Fitter preference

- Most customer feedback incorporated in Target 1.2.
- Germany: education leads to fitter preference
- France: best-ever results at the UNSAAF
- US: consistent growth in market share



Hearing Instruments Segment: Leveraging the Sonova Platform



Hearing Implants: Market overview

Substantial growth expected

- 240,000 cochlear devices implanted worldwide to date
- Cost of a cochlear implant treatment USD 100,000 – 125,000
- Global market growth estimated at 10-15% p.a. in units

Challenges

- Cochlear implant centers and capacities to perform the post-surgery fitting process are limited
- Reimbursement of cochlear implants is not yet established in all markets
- Often patients are not identified and therefore not referred to receive a cochlear implant system
- Awareness and lack of information in developed countries, potential especially in emerging countries

Hearing implants to become more important for Sonova over time

Hearing Implants: New segment

Performance 2010/11

- Turnover of CHF 71 million or 4% of Group sales
- Substantially below expectations
- Voluntary, temporary recall of Adadvanced Bionics implants in November 2010
- Operating loss (EBITA) of CHF 45 million
- Impairment of goodwill and capitalized R&D costs

Advanced Bionics Implants back on sales

- AB cochlear implant back in the market in TÜV countries since April 2011
- FDA approval filed
- Launch of Neptune in autumn 2011

Combining AB and PAI

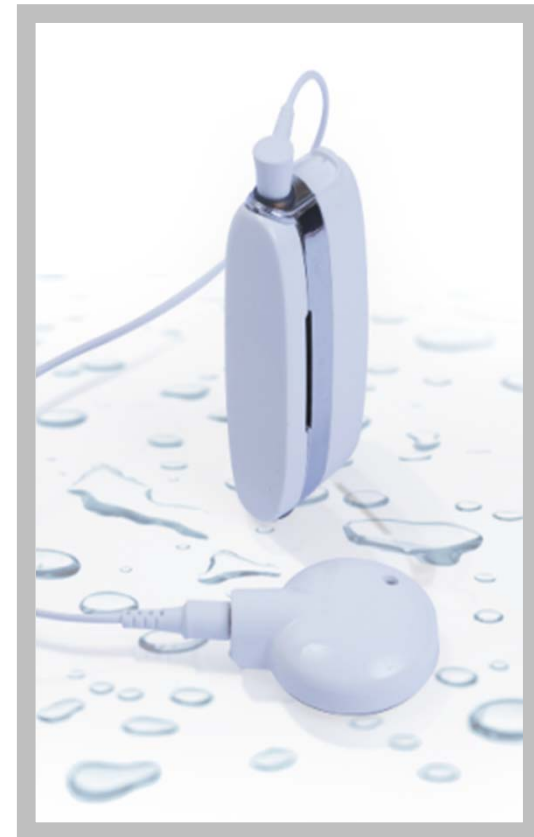
- Advanced Bionics and Phonak Acoustic Implants combined in new segment since March 2011
- Division head Hans-Jürg Emch
- Joint opportunities identified
- R&D efforts for the next generation product according to plan



Hearing Implants: The launch of Neptune (pending regulatory submission)

Neptune – a new Advanced bionic product

- **The World's first swimmable processor**
 - Waterproof: certified IP68
 - Bath, swim, shower
- **Discreet, freestyle, design**
 - Nothing worn on the ear
 - Great retention for process & HP
- **Easy to use and reliable**
 - Removable controls
 - Powered by just 1 AAA battery
- **High performance**
 - Access to HiRes 120 & ClearVoice
 - Promotes consistent device use



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03.
FINANCIAL REVIEW

Full Year 2010/11: Financial Highlights

- **Restatement of 2009/10 figures due to finalization of the acquisition accounting of AB**
- New **sales record** on both Group level and in hearing instrument segment
- **Negative FX** impact of CHF 84 million on sales and CHF 35 million on EBITA
- Record gross profit of CHF 1,119 million
 - Gross profit margin of 69.2%
 - Product recall and FX having negative impact of approx. 2% on margin
- EBITA margin decreased to 20.2%
- **Significant R&D** investments of CHF 108 million
- Solid operating free cash flow of CHF 222 million
- Cash-based basic EPS of CHF 4.27
- Solid balance sheet with an **equity ratio of 61.9%** and net debt of CHF 111 million

Full Year 2010/11: Solid financial performance

In CHF million	2010/11	Change	2009/10
Sales	1,616.7	+7.8%	1,500.3
Gross profit	1,118.7	+5.7%	1,058.6
Gross profit margin	69.2%		70.6%
EBITA	326.6	-22.3%	420.3
EBITA margin	20.2%		28.0%
Operating free cash flow	221.5	-31.8%	324.8
Cash-based basic EPS (in CHF)	4.27	-24.0%	5.61 ¹⁾
ROCE	19.0%		23.0% ¹⁾
Dividend per share in CHF	1.20		1.20

¹⁾ Restated based on finalization of the acquisition accounting of Advanced Bionics

Full Year 2010/11: Solid growth in key markets in local currencies

in CHF million	2010/11			2009/10	
	Sales	in %	Growth in lc	Sales	in %
EMEA (excl. Switzerland)	597	37%	12.8%	583	39%
Switzerland	41	3%	(9.1%)	45	3%
USA	596	37%	14.3%	547	36%
Americas (excl. USA)	247	15%	24.3%	196	13%
Asia/Pacific	136	8%	2.7%	129	9%
Total sales	1,617	100%	13.3%	1,500	100%

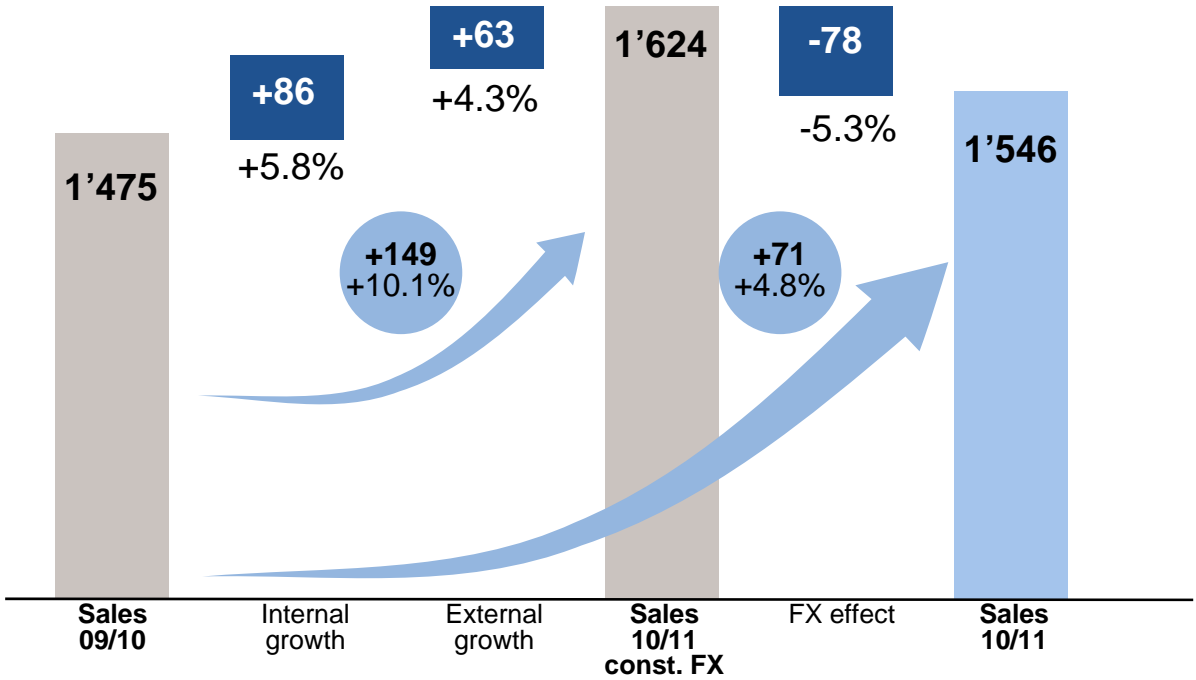
- Strongest growth in The Americas region
- Continuous rise in sales in the US market
- Sound demand in EMEA region
- Declining sales in Switzerland – lower demand due to public reimbursement discussion

Full Year 2010/11: Sales growth across hearing instrument product groups

in CHF million	2010/11			2009/10	
	Sales	in %	Growth in Ic	Sales	in %
First class	398	25%	10.8%	378	25%
Business class	379	23%	12.4%	353	24%
Economy class	481	30%	7.2%	460	31%
Wireless comm.	75	5%	5.0%	75	5%
Miscellaneous	213	13%	7.0%	209	13%
Hearing Instruments	1,546	96%	10.1%	1,475	98%
Hearing implants	71	4%		25	2%
Total sales	1,617	100%	13.3%	1,500	100%

Full Year 2010/11: Growth of 10.1% in Ic in hearing instruments segment

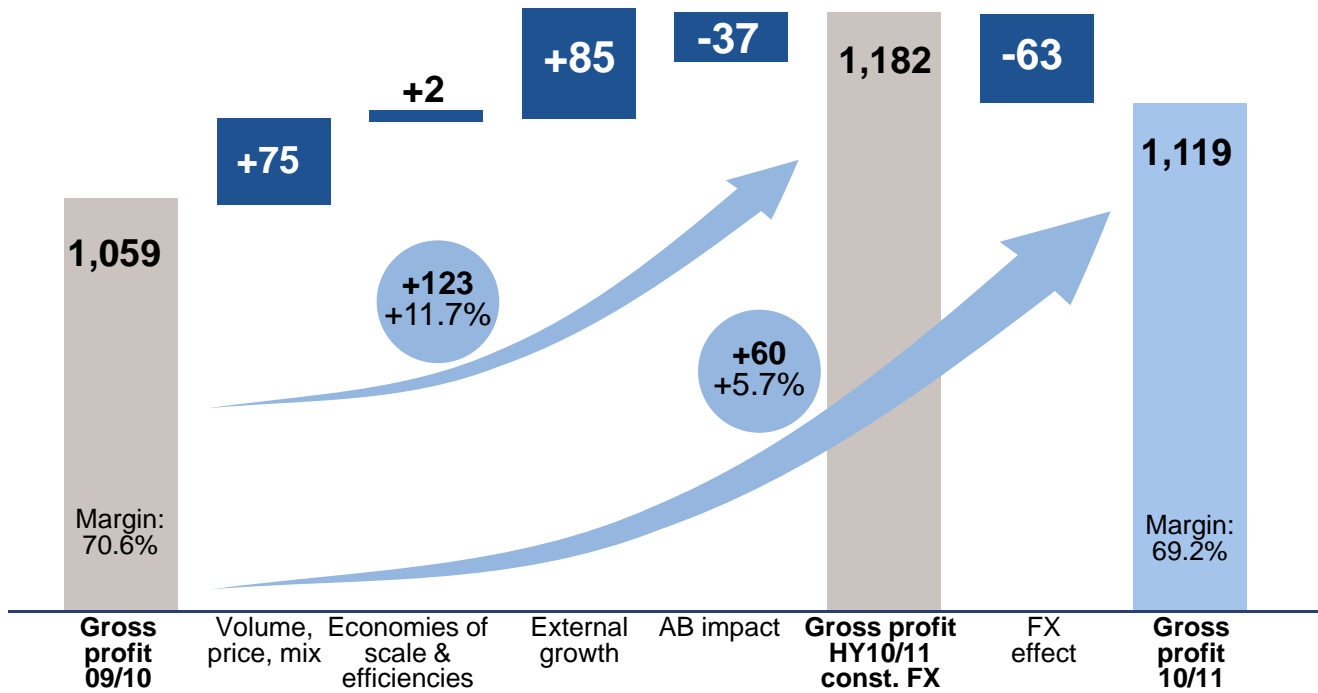
Sales development in millions of CHF



Sound performance of core business – 96% of total sales

Full Year 2010/11: Gross profit at record level

Gross profit development in millions of CHF



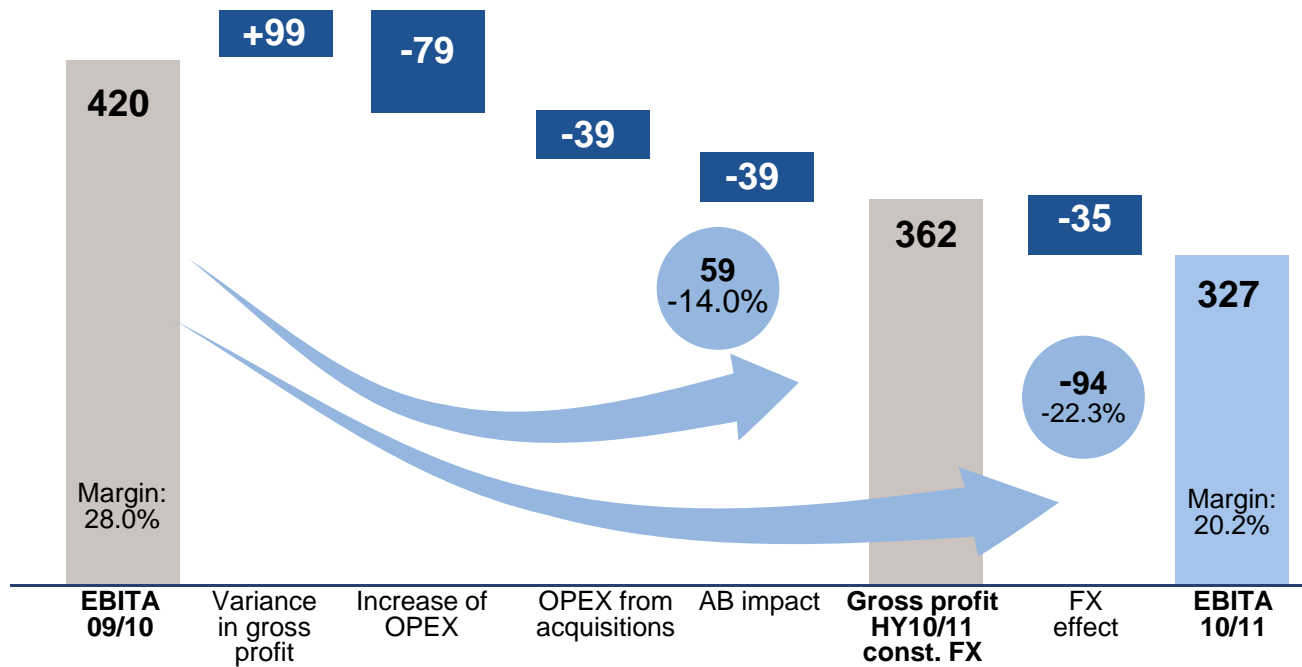
Gross profit margin mainly reduced by FX effect and AB implant recall

Full Year 2010/11: Cost increase anticipates next growth steps

in CHF million	FY 10/11	FY09/10	Change in CHF	Change in Ic	Acquisition related in Ic
R&D	108	87			
in % of sales	6.7%	5.8%	+23.8 %	+25.0%	+20.0%
Sales & Marketing	499	403			
in % of sales	30.8%	26.8%	+23.8%	+29.3%	+16.5%
General & Admin	185	142			
in % of sales	11.5%	9.5%	+30.4%	+34.0%	+12.6%

Full Year 2010/11: Reduced EBITA

EBITA development in millions of CHF



EBITA lower because of missing AB sales, FX and higher OPEX

Full Year 2010/11: Financial result and income taxes

in CHF million	2010/11	2009/10	Comments
EBITA	327	420	CHF 8.1m one-time costs
Amortization/Impairment	-56	-169	Goodwill impairment AB R&D costs PAI
Operating profit (EBIT)	271	251	
Financial result, net	-14	-4	
Share of gain/loss in associates/JVs	+3	-1	
Income before taxes	260	246	
Income taxes	-29	-30	
Income after taxes	231	217	

Full Year 2010/11: Sustainable investments for future growth

in CHF million	2010/11	2009/10
Cash flow before changes in net working capital	398	488
Changes in net working capital	-53	-60 ¹⁾
Operating cash flow	345	428
in % of sales	21.3%	28.5%
Cash flow from investing activities (excl. acquisitions)	-123	-103
Operating free cash flow	222	325
in % of sales	13.7%	21.6%
Free cash flow	72	-301
Cash flow from financing activities	-236	+420
Changes in cash	-171	+119

¹⁾ Restated based on finalization of the acquisition accounting of Advanced Bionics

Full Year 2010/11: Sound financial position

in CHF million	31.3.2011	31.3.2010 ¹⁾
Net working capital	158	144
Days sales outstanding (DSO)	78	75
Days inventory outstanding (DIO)	154	153
Operating capital employed (excluding acquisition-related intangible assets)	441	427
Capital employed	1,456	1,389
Net debt	111	126
Equity	1,345	1,263
Equity in % of total assets	61.9%	54.3%

¹⁾ Restated based on finalization of the acquisition accounting of Advanced Bionics

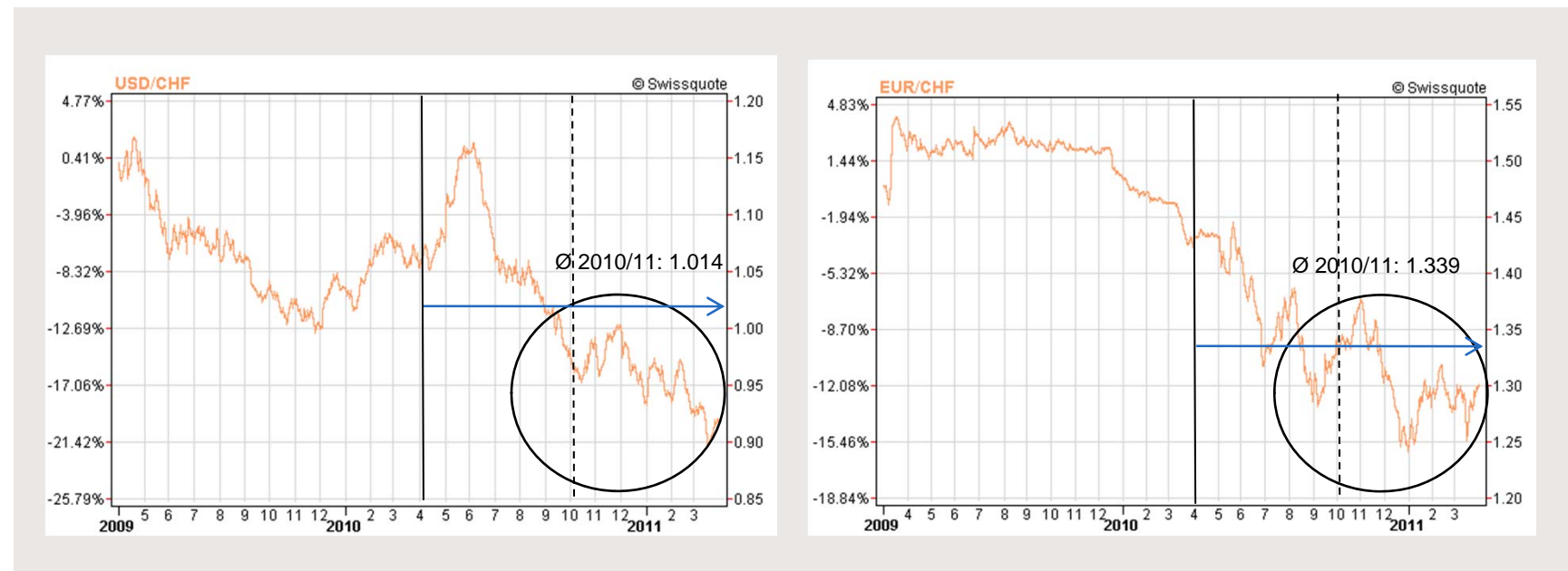
Full Year 2010/11: Comparison H1/H2 in hearing instruments

	H2 2010/11	H1 2010/11
Sales in million CHF	780	766
Sales growth in CHF	1.8%	8.0%
Organic growth in I.c.	4.1%	7.7%
External growth in I.c.	5.8%	2.6%
FX impact	-8.1%	-2.3%
Gross profit margin	68.9%	70.8%
EBITA margin	20.8%	27.3%
OPEX	48.3%	43.7%

Full Year 2010/11: Acceleration of negative FX impact

Development of USD and EUR against CHF

April 1, 2009– March 31, 2011

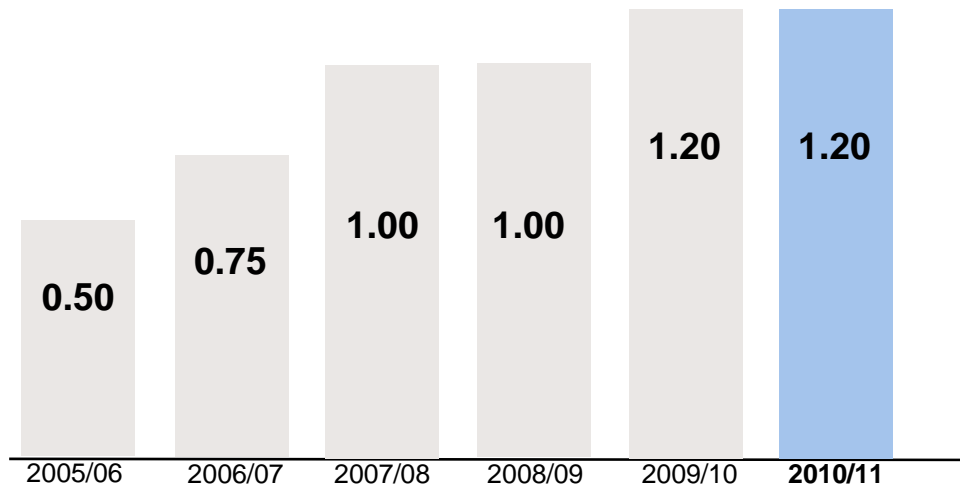


Negative impact in H2 of 2010/11 above 8% of reported sales!

Full Year 2010/11: Unchanged distribution

- Proposed distribution of CHF 1.20 per share, without withholding tax
- Pay-out ratio at approx. 25% (excluding one-off items)

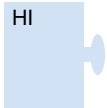
Dividend development in CHF per share



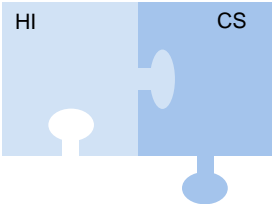
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04.
POSITIONING / STRATEGY

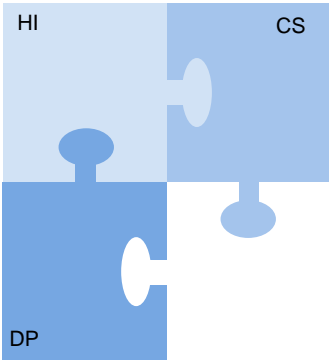
Positioning and Strategy: Creating the global hearing care company



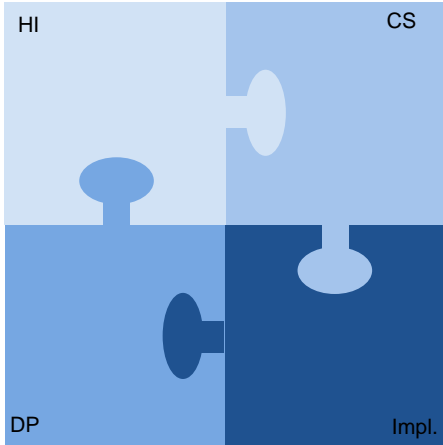
- **Hearing Instruments**



- Hearing Instruments
- **Communication Systems**



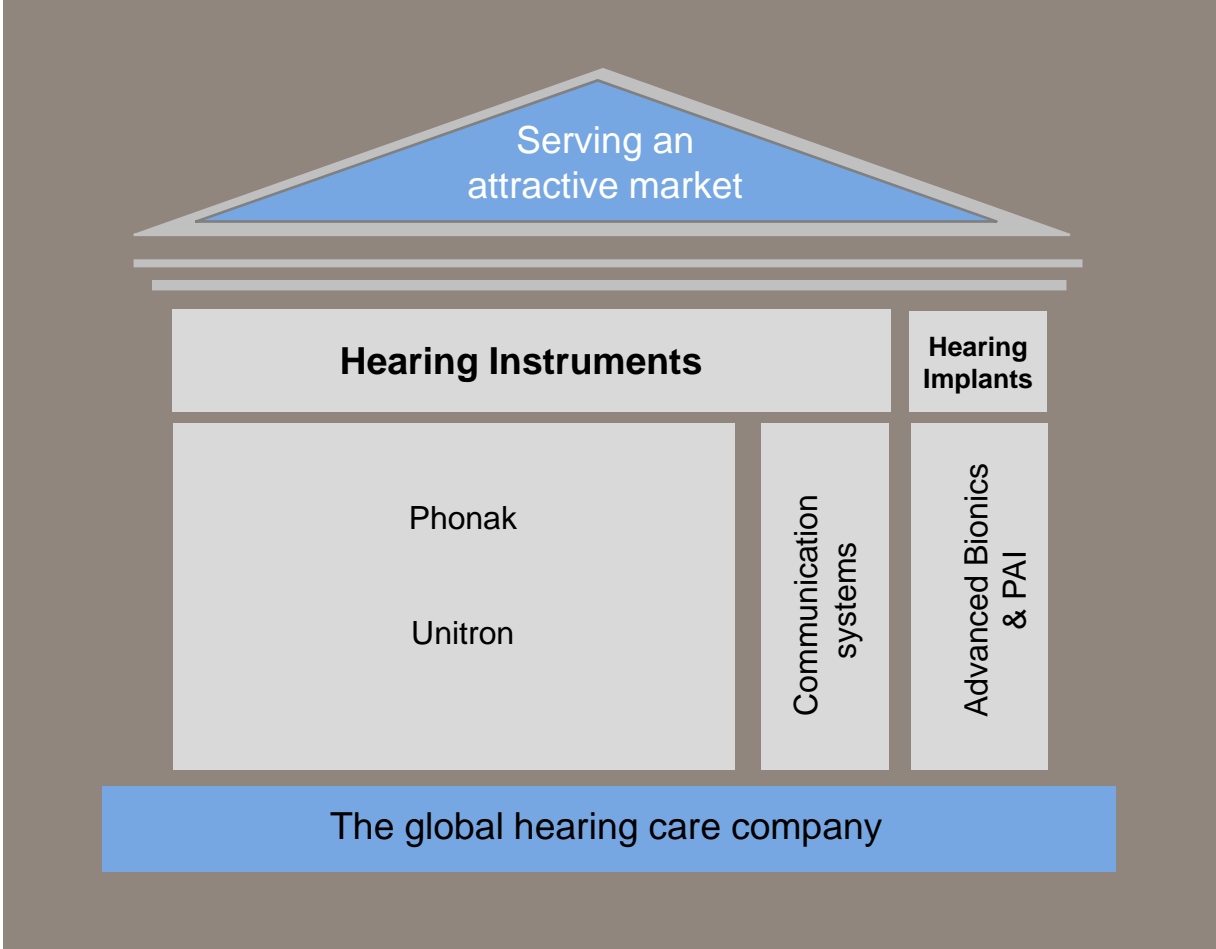
- Hearing Instruments
- Communication Systems
- **Distribution Partners**



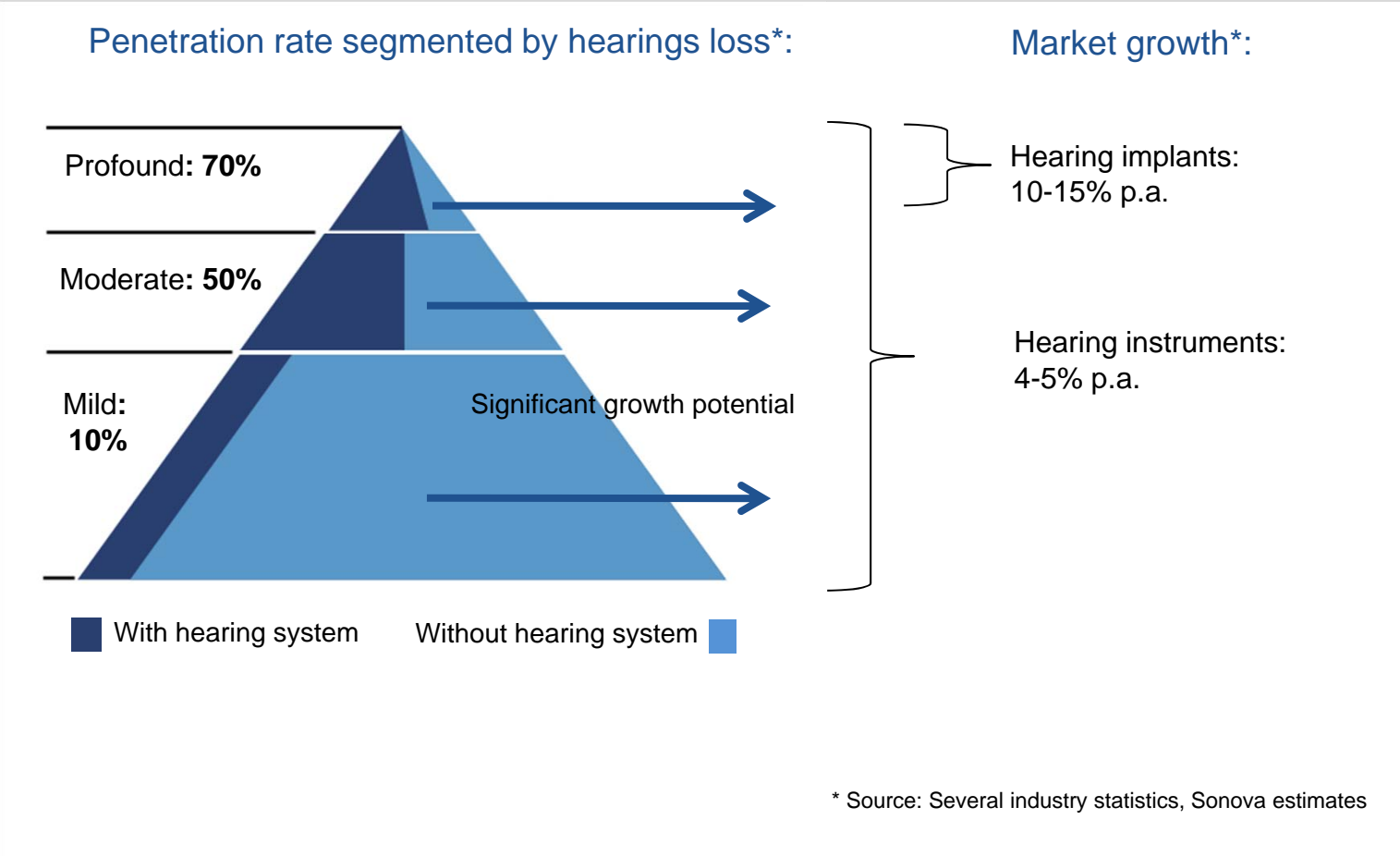
- Hearing Instruments
- Communication Systems
- Distribution Partners
- **Hearing Implants**



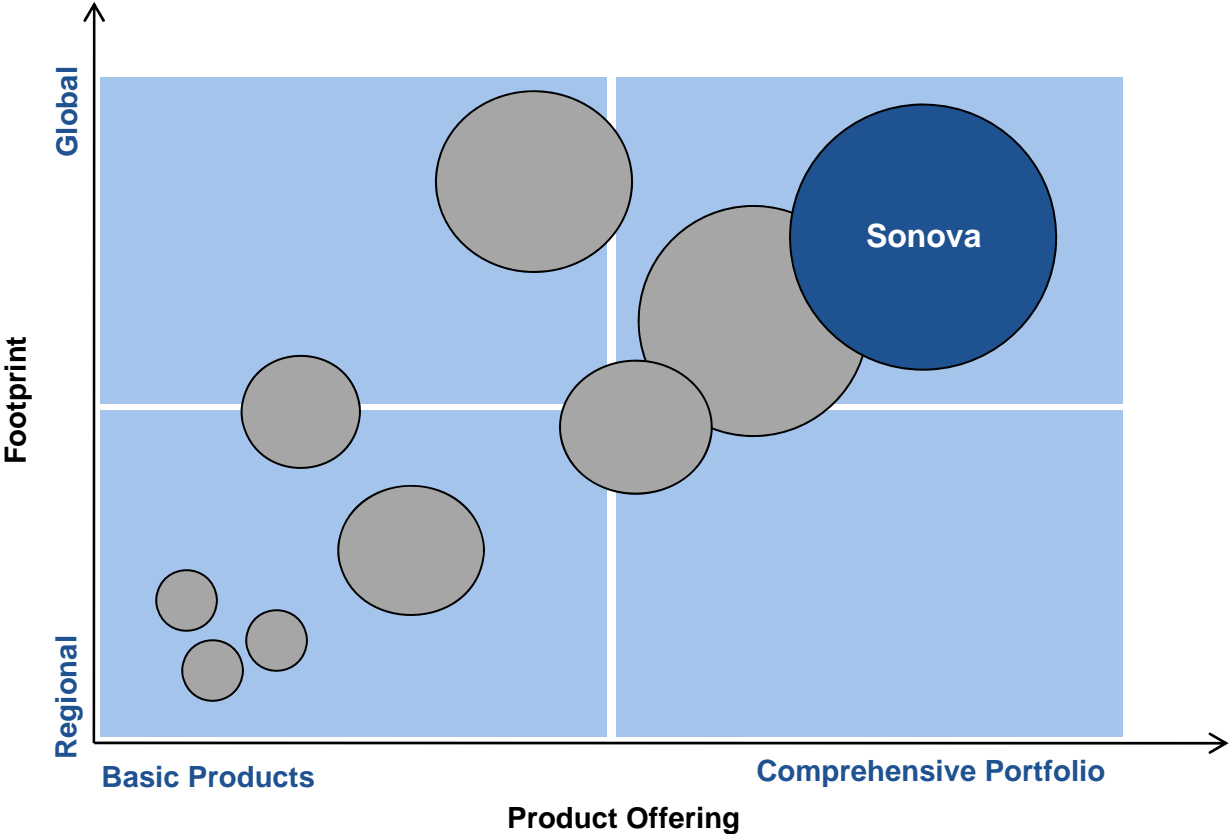
Positioning and Strategy: Our business



Positioning and Strategy: Serving an attractive market



Positioning and Strategy: Consolidating the market leading position



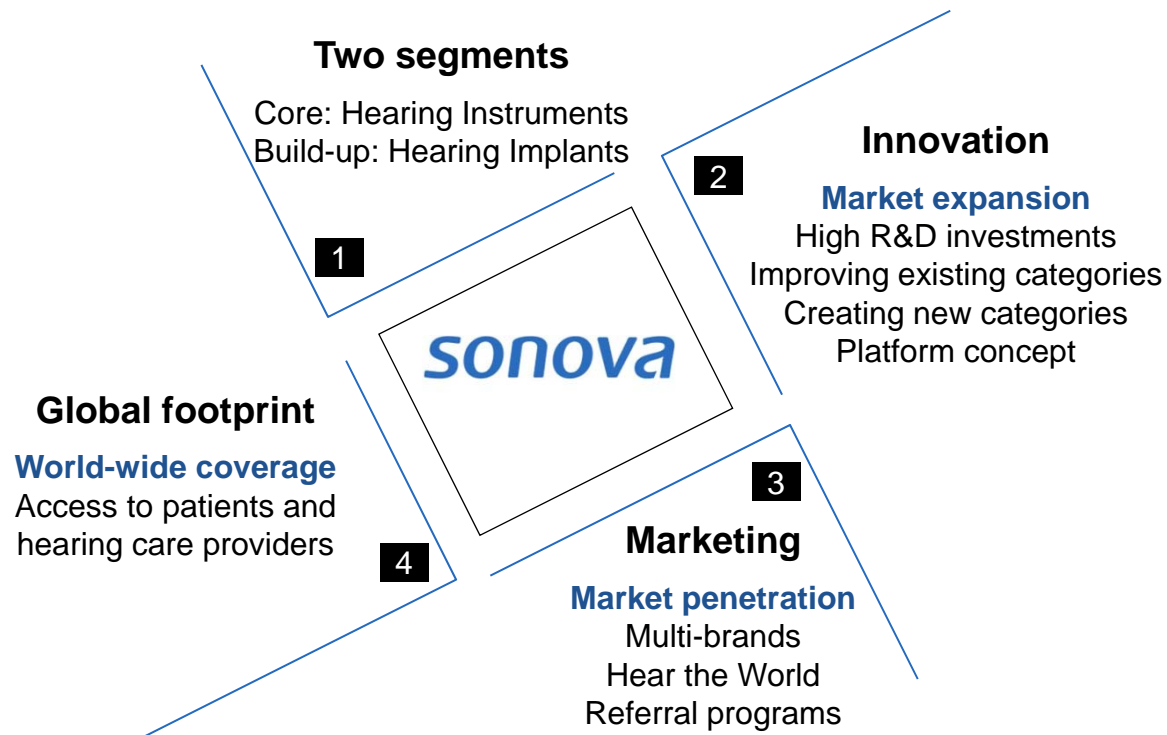
Sonova's key strengths:

- Market leader
- Broadest product portfolio
- Global network
- High innovation rate

Source: market data, Sonova estimates



Positioning and Strategy: Our strategy



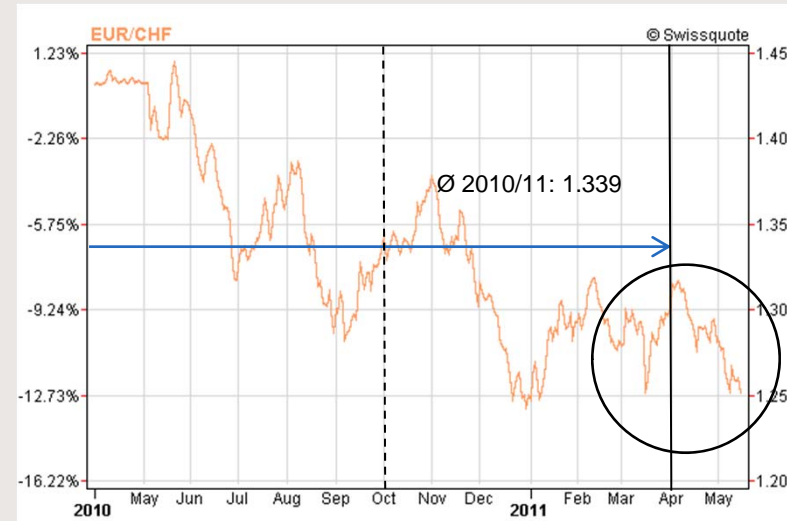
Positioning and Strategy: Addressing key topics in 2011/12

Topic	Initiatives
AB temporary recall	Complete submission and receive FDA approval; resume selling in U.S.A.
AB Neptune product launch	Complete launch of new off-the-ear, water-proof power supply
AB next generation product	Continue development of next generation cochlear implant
Unitron ERA product launches	Launch of product portfolio based on new platform technology according to existing product roadmap
Lyric	Complete integration of Lyric into Phonak – expand U.S. market reach Launch of next generation Lyric device
Phonak product launches	According to existing product roadmap
Next generation hardware platform	Continued development of next generation chip platform for hearing instruments
Cost management	Target operational leverage

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06. Outlook

Outlook: FX impact on sales and margins likely to continue



	Rate	Sales	EBITA
USD/CHF	+/- 5%	+/- CHF 30 million	+/- CHF 9 million
EUR/CHF	+/- 5%	+/- CHF 25 million	+/- CHF 15 million

Outlook: Guidance 2011/12

- Group level: growth of 8-10% in lc
- Hearing instruments: growth of 8-10% in lc
- Negative currency effect on sales: estimate 10% based on current exchange rates
- Negative currency effect on EBITA: estimate CHF 60 million on current exchange rates
- Reported EBITA margin full-year 2011/12: 20-21%

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05.
QUESTIONS & ANSWERS

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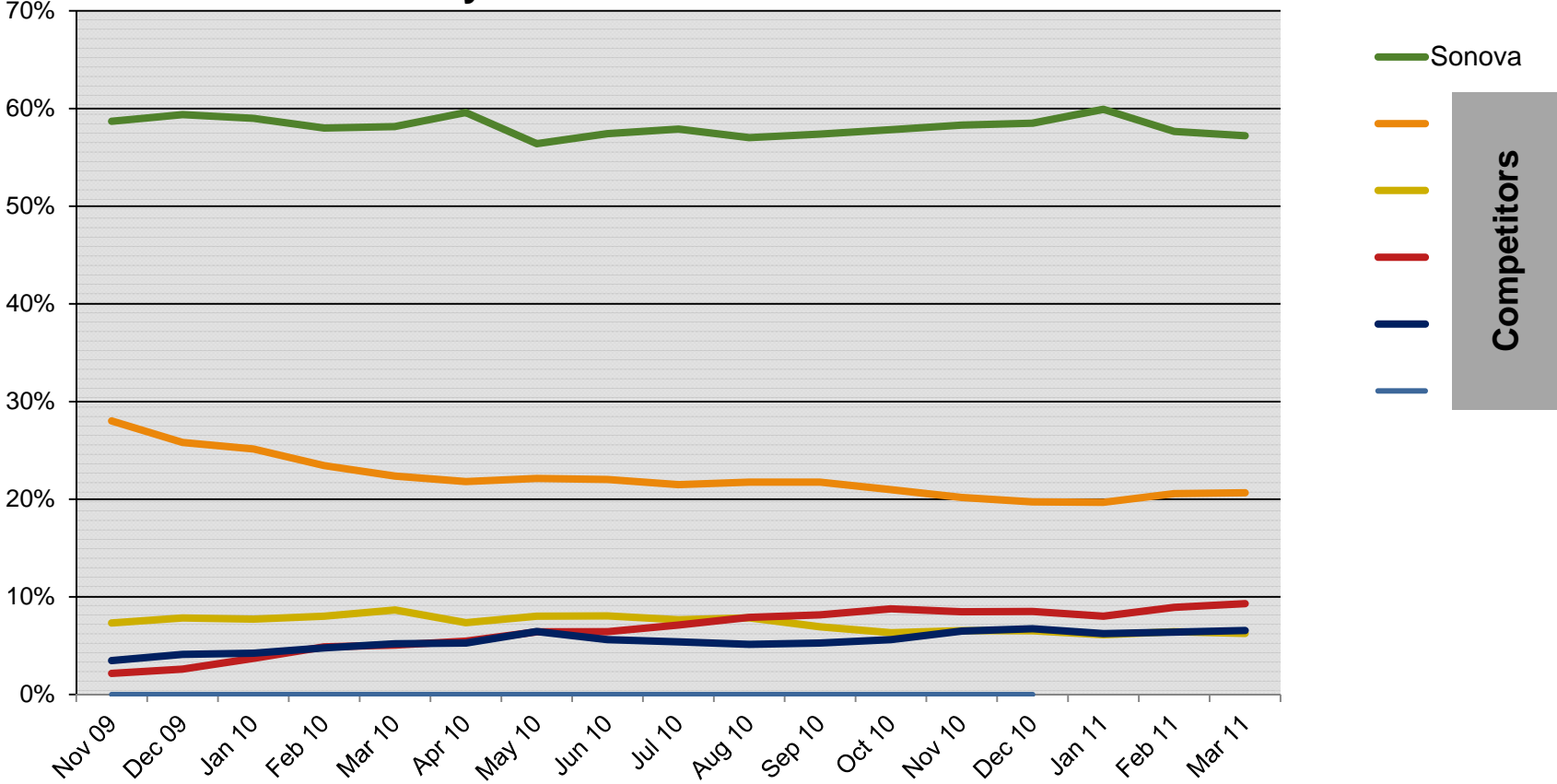
THANK YOU.

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APPENDIX

Sonova keeps up at close to 60% VA market share

Monthly Market Share Development By Revenue - All Products







Phonak - The most comprehensive offering in the industry

	PHONAK <i>life is on</i>	Power	Standard	CRT	CROS/ BiCROS
Segment					
Premium			AVAILABLE NOW Ambra	AVAILABLE NOW	AVAILABLE NOW
Advanced	AVAILABLE SINCE APRIL 11 Naída		AVAILABLE NOW Cassia	AVAILABLE NOW Audéo S YES	AVAILABLE NOW CROS
Standard			AVAILABLE NOW Solana	AVAILABLE NOW Audéo S SMART	
				AVAILABLE NOW Audéo S MINI	

Portfolio transitioned within 7 months

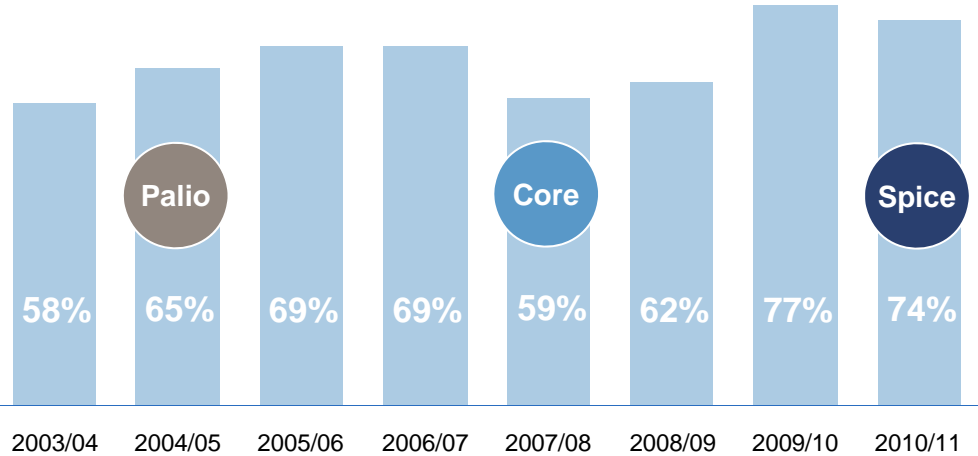
Unitron – new Era platform with 2 product lines



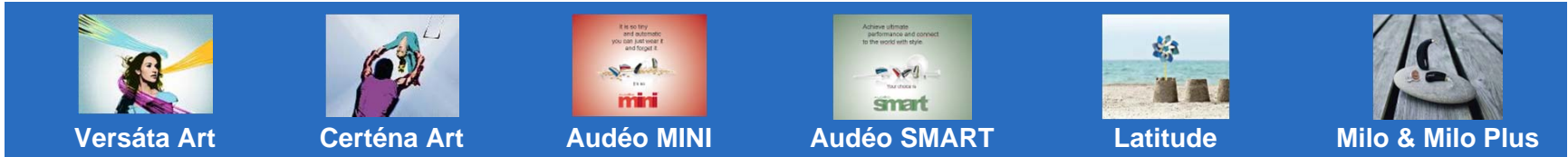
	Super Power	Traditional BTEs	CRT	ITEs (custom)
Segment				
Premium		Passport	Passport	Passport
Advanced	360	NEW Quantum 20, 12, 6	NEW Moxi 20, 12, 6	NEW Quantum 20, 12, 6
Standard Basic		Latitude 4	Latitude 4	Latitude 4
		Shine	Shine	Shine
		Ziel		

Sonova continues to be the innovation leader

- Innovation rate at a high level due to substantial R&D investments
- Successful platform concept upgraded every 3-4 years
- Low time-to-market for new products



Sales of products launched less than 2 years ago in % of total sales



Global footprint

Active in over 90 countries
Group Companies: > 50

