sonova
HEAR THE WORLD

FINANCIAL REPORT

Semi-Annual Report 2019/20

Highlights & key figures First half 2019/20

Growth in the first half of financial year 2019/20, was driven by a strong performance across all three businesses, propelled by the success of our new products, commercial execution and growth initiatives. Reported growth was held back by currency headwinds.

Sonova Group sales: up 12.0 % in local currencies

Consolidated sales in the first half of financial year 2019/20 were 1,426.3 million, an increase of 12.0 % in local currencies or 9.4 % in Swiss francs. Organic growth reached 11.0 % in local currencies.

Hearing Instruments segment: up 11.0 % in local currencies

The Hearing Instruments segment achieved sales of CHF 1,294.1 million, up 11.0 % in local currencies or 8.4 % in Swiss francs. The adjusted EBITA[1] increased by 15.5 % in local currencies or 11.2 % in Swiss francs to CHF 271.2 million.

Cochlear Implants segment: up 22.3 % in local currencies

Sales in the Cochlear Implants segment reached CHF 132.2 million, up 22.3 % in local currencies or 20.9 % in Swiss francs. This resulted in an EBITA of CHF 8.9 million up 37.5 % in local currencies vs. the prior year period.

Adjusted Group EBITA: up 16.1 % in local currencies

The adjusted Group EBITA[1] reached CHF 279.5 million, up 16.1 % in local currencies or 11.2 % in Swiss francs. As reported, Group EBITA reached CHF 264.0 million, an increase of 9.9 % in local currencies vs. the prior year period.

Earnings per share: up 14.0 % to CHF 3.32

Sonova achieved a strong increase in adjusted earnings per share[2], which rose by 14.0 % vs. the prior year period to CHF 3.32.

Expansion of successful Phonak Marvel platform

Building on the strong success of Phonak Marvel launched in November 2018, the introduction of Marvel 2.0 in August 2019 further expanded the range of Marvel products available and added additional functionalities.

Sonova Group key figures[3] – First half 2019/20

April 1 to September 30, in CHF m unless otherwise specified	2019	2018	Change in Swiss francs	Change in local currencies
Sales	1,426.3	1,303.3	9.4 %	12.0 %
Gross profit	1,009.6	919.4	9.8 %	12.9 %
EBITA	264.0	251.3	5.0 %	9.9 %
EBIT	241.2	227.7	5.9 %	10.9 %
Basic earnings per share (CHF)	5.55	2.91	90.6 %	
Operating free cash flow	303.6	165.6	83.3 %	
Gross profit (adjusted)[1]	1,011.1	919.4	10.0 %	13.1 %
EBITA (adjusted)[1]	279.5	251.3	11.2 %	16.1 %
EBITA margin (adjusted)[1]	19.6 %	19.3 %		
Basic earnings per share (CHF) (adjusted)[2]	3.32	2.91	14.0 %	

[1] In 2019, excluding restructuring costs.
[2] In 2019, excluding restructuring costs and one-time positive transition impacts of the Swiss tax reform.
[3] For detailed definitions, please refer to “Key figures”.

Letter to shareholders

Sonova had a strong first half with good momentum in all three businesses. The Phonak Marvel platform continued to drive momentum in the Hearing Instruments business while the Audiological Care business further increased its organic growth. Sales in the Cochlear Implants business accelerated, driven by high demand for its MRI-compatible implant.

Dear Shareholders

The Group's consolidated sales in the first half of financial year 2019 / 20 reached CHF 1,426.3 million, up 12.0 % in local currencies, driven by strong organic growth in all three businesses. Reported growth was held back by the recent strengthening of the Swiss franc, which reduced sales by CHF 32.9 million or 2.5 %. As part of our continuous improvement initiative, we initiated further measures to improve our operating structure, that will reduce costs by around CHF 10 million per annum once fully implemented. Adjusted for restructuring costs of CHF 15.5 million related to those improvement measures, operating profit before acquisition-related amortization (EBITA) reached CHF 279.5 million, up 16.1 % in local currencies. Reported EBITA was CHF 264.0 million, up 9.9 % in local currencies or 5.0 % in Swiss francs.

Hearing Instruments segment

The Hearing Instruments segment had a strong first half, with sales up 11.0 % in local currencies, driven by a further acceleration of organic growth in both the Hearing Instruments and Audiological Care business and supported by bolt-on acquisitions. The strong customer demand for the Phonak Marvel platform launched in November 2018 was a key driver for the sales increase in the Hearing Instruments business, resulting in double-digit growth in the period under review. Building on this success, we introduced Marvel 2.0 in August 2019, further expanding the range of Marvel products available and expanding its features. Organic growth in the Audiological Care business further accelerated as we leveraged the benefits of the growth initiatives we initiated in past years and benefiting from our ongoing efforts to enhance consumer access through both face-to-face and online interactions.

Cochlear Implants segment

Sales in the Cochlear Implants segment were up by 22.3 % in local currencies. This growth was supported by a pick-up in upgrade sales and the continued success of our HiRes™ Ultra 3D cochlear implant, which features an innovative magnet design allowing recipients to undergo MRI scans without the need to surgically remove the magnet. Another highlight in the period was the regulatory approval in the United States and in Europe for our Active Insertion Monitoring (AIM™) System, an innovative solution for implant surgery, enabling the monitoring of the surgical procedure in real-time.

Continuous improvement

In the first half of financial year 2019 / 20 we continued our initiative aimed at a sustainable improvement of our cost base. We are integrating and streamlining back-office functions in the United States and Germany and are creating dedicated centers of excellence in our global marketing organization. Further we achieved good progress in cost improvements in the Cochlear Implants segment, helping the gross profit progression.

Outlook

In light of the strong first half, we are raising the outlook for the full year. The Group now expects sales to grow by 8 % – 10 % and the adjusted EBITA to rise between 12 % – 15 %, both measured in local currencies. The previous guidance indicated a sales growth of 6 % – 8 % and an increase in the adjusted EBITA of 9 % – 13 % in local currencies. Our mid-term outlook remains positive and unchanged.

Robert Spoerry
Chairman of the Board
of Directors

Arnd Kaldowski
Chief Executive Officer

Financial review

In the first half of financial year 2019 / 20 Sonova generated sales of CHF 1,426.3 million, an increase of 12.0 % in local currencies or 9.4 % in Swiss francs. Adjusted EBITA reached CHF 279.5 million, up 16.1 % in local currencies or 11.2 % in Swiss francs.

High organic growth across all businesses

Sonova Group sales increased by 12.0 % in local currencies in the first half of financial year 2019 / 20, driven by high organic growth in all three businesses. Organic growth contributed 11.0 %, growth from acquisitions accounted for another 1.2 %, whereas disposals reduced growth by 0.2 %. Reported growth was held back by the recent strengthening of the Swiss franc, which reduced sales by CHF 32.9 million or 2.5 %. This resulted in Group sales of CHF 1,426.3 million, an increase of 9.4 % in Swiss francs.

Strong double-digit growth in the USA, solid momentum in EMEA and APAC

EMEA (Europe, Middle East and Africa), the Group's largest region in terms of revenue, showed a sales increase of 9.7 % in local currencies. Strong organic growth was achieved in key markets including Germany, France, UK, Spain, Italy and the Nordics. The EMEA share of Group sales decreased slightly from 54 % in the first six months of financial year 2018 / 19 to 52 % in the period under review, partly as a result of the recent weakening of the euro and the British pound versus the Swiss franc.

Based on strong organic growth across all businesses and channels, sales in the United States increased by 20.3 % in local currency versus the prior year period. Growth in the Hearing Instruments segment was driven by both the ongoing success of the Phonak Marvel platform and the continued accelerated same store growth post the restructuring of the Audiological Care network last year. Furthermore, the introduction of Phonak Audéo™ Marvel with the US Department of Veterans Affairs (VA) in May 2019 and a new private label contract with a large US hearing aid retailer supported growth and market share gains. Growth in the Cochlear Implants business accelerated as a result of the increased adoption of the HiRes™ Ultra 3D implant introduced one year ago and strong upgrade sales. The region accounted for 30 % of Group sales versus 27 % in the first half of financial year 2018 / 19.

Sales in the rest of the Americas (excluding the US) increased by 0.5 % in local currencies. Growth was held back by the Hearing Instruments business in Canada and by the decision to discontinue the distribution of certain non-Sonova products in Brazil. Sales in the Asia / Pacific (APAC) region increased by 11.5 % in local currencies, driven by a strong development in China and Australia.

Sales by regions

April 1 to September 30, in CHF m			2019		2018
	Sales	Share	Growth in local currencies	Sales	Share
EMEA	738.5	52 %	9.7 %	701.2	54 %
USA	431.1	30 %	20.3 %	355.0	27 %
Americas (excl. USA)	110.9	8 %	0.5 %	112.2	9 %
Asia / Pacific	145.8	10 %	11.5 %	134.9	10 %
Total sales	**1,426.3**	**100 %**	**12.0 %**	**1,303.3**	**100 %**

Solid margin development

As part of Sonova's continuous improvement initiative, further measures aimed at improving the operating structure were initiated. We are integrating all back-office functions in the Hearing Instruments segment in the United States in one single location close to Chicago. The goal is to leverage common infrastructure and reduce complexity across brands. Furthermore, in order to provide support services to the global marketing organization, we are creating two dedicated centers of excellence in the area of digital marketing and lead generation. In Germany, the Audiological Care business is in the process of streamlining back-office, administrative and call-center functions. The restructuring costs associated with these measures amounted to CHF 15.5 million for the Hearing Instruments segment in the period under review. They are expected to result in annual cost savings of around CHF 10 million once fully implemented by the middle of calendar year 2020. Adjusted figures and growth rates exclude these costs.

Reported gross profit reached CHF 1,009.6 million, up 12.9 % in local currencies. Adjusted for restructuring costs, gross profit reached CHF 1,011.1 million, an increase of 13.1 % in local currencies and 10.0 % in Swiss francs. The adjusted gross profit margin was 70.9 %, an increase of 0.4 percentage points over the prior year period. Excluding the negative impact from the stronger Swiss franc, the adjusted gross margin increased by 0.7 percentage points. The gross profit margin benefited from improved average selling prices (ASPs) in the Hearing Instruments segment, reflecting the continued positive market response to the Marvel platform, which drove increased demand for higher value solutions. Thereby operating improvements more than offset additional cost of higher share of rechargeable products. In addition, the gross profit margin of the Cochlear Implants segment improved versus the prior year period, driven by improved ASPs from product innovations, ongoing productivity improvements as well as a favorable development of the country mix.

Excluding acquisition-related amortization, operating expenses were CHF 745.6 million. These included restructuring costs of CHF 14.0 million. Adjusted operating expenses before acquisition-related amortization reached CHF 731.6 million, an increase of 11.9 % in local currencies. In the following, operating expenses by category are shown excluding restructuring costs.

Research and development (R & D) expenses before acquisition-related amortization reached CHF 80.3 million, an increase of 12.2 % in local currencies. The reported growth reflects Sonova's commitment to continuously invest in innovation both in the Hearing Instruments as well as in the Cochlear Implants segment in order to further advance Sonova's industry leading portfolio of products and services.

Sales and marketing costs before acquisition-related amortization reached CHF 510.0 million, up 10.7 % in local currencies over the prior year period. The increase reflects investments into sales coverage and marketing capabilities as well as the ongoing expansion of the Audiological Care network, including greenfield projects and bolt-on acquisitions. General and administration costs before acquisition-related amortization were CHF 141.5 million up 13.6 % in local currencies. They include ongoing investments in the development and roll-out of a new IT system for the Audiological Care business and were affected by provisions for contract obligations to health insurance providers and by increased bad debt expenses.

Other income for the period was CHF 0.2 million. Year-over-year, this compares to an income of CHF 3.8 million which was mainly related to a release of a provision for cochlear implant product liability.

Adjusted operating profit before acquisition-related amortization (EBITA) reached CHF 279.5 million (1H 2018 / 19: CHF 251.3 million), representing an increase of 16.1 % in local currencies and 11.2 % in Swiss francs. The adjusted EBITA margin reached 19.6 %, up 0.7 percentage points in local currencies. Exchange rate developments negatively affected the adjusted EBITA by CHF 12.3 million and reduced the margin by 0.4 percentage points. Including restructuring costs, the reported EBITA increased by 9.9 % in local currencies or 5.0 % in Swiss francs to CHF 264.0 million.

Reflecting the EBITA growth and a slight reduction in the acquisition-related amortization, reported operating profit (EBIT) reached CHF 241.2 million (1H 2018 / 19: CHF 227.7 million), up by 10.9 % in local currencies or 5.9 % in Swiss francs. Net financial expenses increased from CHF 4.2 million to CHF 5.3 million, reflecting the adoption of IFRS 16 as of April 1, 2019. As a result of the Swiss tax reform, income taxes were affected positively by CHF 154.3 million, reflecting a revaluation of the Swiss deferred tax positions and a resulting one-time deferred tax income. Excluding this one-time transition impact, the tax rate remained unchanged at 13.5 % versus the prior year period. This resulted in an income after taxes of CHF 358.4 million. Basic earnings per share (EPS) reached CHF 5.55, up 90.6 %. Excluding restructuring costs and the transition impact of the Swiss tax reform, adjusted EPS for the first six months of 2019 / 20 were CHF 3.32 compared to CHF 2.91 in the prior year period, an increase of 14.0 %.

Sales by business – Hearing Instruments segment

April 1 to September 30, in CHF m	2019			2018	
	Sales	Share	Growth in local currencies	Sales	Share
Hearing Instruments business	770.3	60%	12.2%	696.8	58%
Audiological Care business	523.8	40%	9.4%	497.2	42%
Total Hearing Instruments segment	**1,294.1**	**100%**	**11.0%**	**1,194.0**	**100%**

Hearing Instruments segment – Strong momentum from new products and solid same-store growth

The Hearing Instruments segment had a strong first half, with sales up 11.0% in local currencies to CHF 1,294.1 million. Organic growth was 10.0%, while the contribution from acquisitions in the reporting period and the annualization of prior year acquisitions was 1.3% or CHF 15.9 million. Prior year disposals related to the streamlining of the US Audiological Care network reduced sales by 0.3%. The recent strengthening of the Swiss franc had a negative effect of CHF 31.5 million or 2.6%. This resulted in a reported sales growth of 8.4%.

In the Hearing Instruments business, the strong consumer demand for the Phonak Marvel platform launched in November 2018 was a key driver for the strong increase, resulting in double-digit growth in the period. Building on this success, we introduced Marvel 2.0 in August 2019, further expanding the range of products available and adding additional features. Both ASPs and volumes increased in the period, leading to an organic growth in local currencies of 12.2% and to sales of CHF 770.3 million. Strong double-digit growth in the USA led to market share gains in all channels including a rebound of Sonova's share in the US Department of Veterans Affairs (VA). Further contributing was a new private label contract with a large US hearing aid retailer and increasing coverage by managed care.

The Audiological Care business maintained its solid growth momentum, by leveraging the benefits of the growth initiatives we initiated in past years and benefiting from ongoing efforts to further enhance consumer access through both face-to-face and online interactions. Sales increased by 9.4% in local currencies to CHF 523.8 million driven by organic growth of 6.9%. Acquisitions contributed 3.1% , whereas disposals reduced growth by 0.6%. Double-digit same-store growth was realized in the US, the UK, Austria and the Nordics. Growth was helped by both increasingly centralized lead generation management and improved in-store sales conversion. Also the positive consumer response to Phonak Marvel supported growth and further elevated the awareness of the Phonak product brand with consumers.

Reported EBITA for the Hearing Instruments segment reached CHF 255.7 million, up 9.1% in local currencies. The adjusted EBITA amounted to CHF 271.2 million, up 15.5% in local currencies or 11.2% in Swiss francs, corresponding to a margin of 21.0%. Excluding the adverse currency development, the margin increased by 0.9 percentage points compared to the prior year period.

Sales by product groups – Cochlear Implants segment

April 1 to September 30, in CHF m	2019			2018	
	Sales	Share	Growth in local currencies	Sales	Share
Cochlear Implant systems	98.6	75 %	23.0 %	81.0	74 %
Upgrades and accessories	33.6	25 %	20.1 %	28.4	26 %
Total Cochlear Implants segment	**132.2**	**100 %**	**22.3 %**	**109.4**	**100 %**

Cochlear Implants segment – Acceleration driven by system and upgrade sales

The Cochlear Implants segment achieved sales of CHF 132.2 million, up 22.3 % in local currencies and 20.9 % in Swiss francs, driven by double-digit growth in all regions. Growth was supported by a pick-up in upgrade sales and the continued success of the HiRes Ultra 3D cochlear implant resulting in increased ASPs and volumes. The launch of Naída™ CI Connect and the Chorus™ sound processor in March supported the strong momentum in upgrade sales. During the reporting period, the U.S. Food and Drug Administration (FDA) and the German TÜV approved the Active Insertion Monitoring (AIM™) System, an innovative solution to support implant surgery in real-time.

Driven by higher volume across the regions, operational efficiency improvements as well as higher ASPs on upgrades and systems, the gross margin improved versus prior year. As a result, the Cochlear Implants segment reported an EBITA of CHF 8.9 million, versus CHF 7.7 million in the comparison period. Normalized for last year's one-time effect from the release of a product liability provision in the amount of CHF 3.8 million, the EBITA margin of 6.7 % increased by 4.4 percentage points over prior year in local currencies or by 3.1 percentage points in Swiss francs.

Strong cash flow and balance sheet

Cash flow from operating activities reached CHF 364.6 million, an increase of 64.5 % versus the prior year period. The strong increase was driven by an improvement in working capital as well as the adoption of IFRS 16 as of April 1, 2019. Operating free cash flow increased by 83.3 % to CHF 303.6 million. Driven by the continued expansion of the Audiological Care network and technology investments, the cash consideration for acquisitions amounted to CHF 40.7 million. The cash outflow from financing activities of CHF 393.0 million reflects the dividend payment of CHF 186.5 million and net share repurchases of CHF 215.2 million, mainly related to the share buyback program, and an increase in borrowings of CHF 50.3 million.

Net working capital stood at CHF 98.4 million versus CHF 163.0 million at the end of March 2019. The main driver was trade receivables which improved by CHF 91.8 million over the past half year. Trade payables were reduced by CHF 34.5 million in the same period. Capital employed increased to CHF 3,008.2 million compared to CHF 2,630.0 million at the end of March 2019, driven by the adoption of IFRS 16 and the one-time capitalization of deferred tax assets as a result of the Swiss tax reform.

The Group's equity amounted to CHF 2,252.4 million, resulting in a solid equity ratio of 49.9 %. The net debt position stood at CHF 755.8 million compared to CHF 253.9 million at the end of March 2019, reflecting additional lease liabilities of CHF 272.1 million as a result of IFRS 16, net share repurchases of CHF 215.2 million and additional financial liabilities for contingent considerations and deferred payments from acquisitions in the amount of CHF 47.6 million.

Outlook 2019 / 20

In light of the strong first half, we are raising the outlook for the full year. The Group now expects sales to grow by 8 % – 10 % and the adjusted EBITA to rise between 12 % – 15 %, both measured in local currencies. The previous guidance indicated a sales growth of 6 % – 8 % and an increase in the adjusted EBITA of 9 % – 13 % in local currencies. Our mid-term outlook remains positive and unchanged.

Reconciliation of non-GAAP financial measures

April 1 to September 30, CHF million					2019
	Income statement as reported	Acquis. related amortization	**Income statement EBITA separation**	Adjustments[3]	**Income statement adjusted**
Sales	**1,426.3**		**1,426.3**		**1,426.3**
Cost of sales	(416.8)		(416.8)	1.5	(415.3)
Gross profit	**1,009.6**		**1,009.6**	**1.5**	**1,011.1**
Research and development	(81.6)	0.5	(81.2)	0.9	(80.3)
Sales and marketing	(538.5)	22.4	(516.1)	6.2	(510.0)
General and administration	(148.4)		(148.4)	6.9	(141.5)
Other income / (expenses), net	0.2		0.2		0.2
Operating profit before acquisition-related amortization (EBITA)[1]			**264.0**	**15.5**	**279.5**
Acquisition-related amortization		(22.8)	(22.8)		(22.8)
Operating profit (EBIT)[2]	**241.2**		**241.2**	**15.5**	**256.6**
Basic earnings per share (CHF)	**5.55**		**5.55**	**(2.23)**	**3.32**

April 1 to September 30, CHF million					2018
	Income statement as reported	Acquis. related amortization	**Income statement EBITA separation**	Adjustments	**Income statement adjusted**
Sales	**1,303.3**		**1,303.3**		**1,303.3**
Cost of sales	(383.9)		(383.9)		(383.9)
Gross profit	**919.4**		**919.4**		**919.4**
Research and development	(72.2)	0.5	(71.7)		(71.7)
Sales and marketing	(496.9)	23.1	(473.7)		(473.7)
General and administration	(126.5)		(126.5)		(126.5)
Other income / (expenses), net	3.8		3.8		3.8
Operating profit before acquisition-related amortization (EBITA)[1]			**251.3**		**251.3**
Acquisition-related amortization		(23.6)	(23.6)		(23.6)
Operating profit (EBIT)[2]	**227.7**		**227.7**		**227.7**
Basic earnings per share (CHF)	**2.91**		**2.91**		**2.91**

[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).
[3] Adjustments in the first half of financial year 2019 / 20 relate to restructuring costs of CHF 15.5 million and one-time positive transition impacts of the Swiss tax reform.

Key figures

April 1 to September 30, in CHF million unless otherwise specified	2019	2018
Sales	**1,426.3**	**1,303.3**
change compared to previous year (%)	9.4	4.0
Gross profit	**1,009.6**	**919.4**
in % of sales	70.8	70.5
Gross profit (adjusted)[1]	**1,011.1**	**919.4**
in % of sales	70.9	70.5
Research & development costs	**81.2**	**71.7**
in % of sales	5.7	5.5
Sales & marketing costs	**516.1**	**473.7**
in % of sales	36.2	36.3
Operating profit before acquisition-related amortization (EBITA)	**264.0**	**251.3**
in % of sales	18.5	19.3
Operating profit before acquisition-related amortization (EBITA) (adjusted)[2]	**279.5**	**251.3**
in % of sales	19.6	19.3
Operating profit (EBIT)	**241.2**	**227.7**
in % of sales	16.9	17.5
Income after taxes[3]	**358.4**	**193.4**
in % of sales	25.1	14.8
Income after taxes (adjusted)[3]	**215.5**	**193.4**
in % of sales	15.1	14.8
Basic earnings per share (CHF)[3]	**5.55**	**2.91**
Basic earnings per share (CHF) (adjusted)[3]	**3.32**	**2.91**
Net debt[4]	**755.8**	**290.0**
Net working capital[5]	98.4	155.3
Capital expenditure (tangible and intangible assets)[6]	61.0	51.9
Capital employed[7] [8]	3,008.2	2,573.0
Total assets[9]	4,511.7	4,234.3
Equity[10]	2,252.4	2,283.0
Equity financing ratio (%)[11]	49.9	53.9
Free cash flow[12]	262.9	142.2
Operating free cash flow[13]	**303.6**	**165.6**
Number of employees (end of period)	**14,985**	**14,447**

1) In 2019, excluding restructuring costs of CHF 1.5 million.
2) In 2019, excluding restructuring costs of CHF 15.5 million.
3) In 2019, reported income after taxes and reported basic earnings per share consider one-time positive transition impacts of the Swiss tax reform of CHF 154.3 million and negative impacts from restructuring costs (incl. tax impact) of CHF 11.3 million, which have been excluded in adjusted income after taxes and adjusted basic earnings per share.
4) Cash and cash equivalents + other current financial assets (without loans) – current financial liabilities – current lease liabilities – non-current financial liabilities – non-current lease liabilities.
5) Receivables (incl. loans) + inventories – trade payables – current income tax liabilities – short-term contract liabilities – other short-term liabilities – short-term provisions.
6) Excluding goodwill and intangibles relating to acquisitions.
7) In 2019, capital employed considers one-time positive transition impacts of the Swiss tax reform of CHF 153.5 million.
8) Equity + net debt.
9) In 2019, total assets considers one-time positive transition impacts of the Swiss tax reform of CHF 150.0 million.
10) In 2019, equity considers one-time positive transition impacts of the Swiss tax reform of CHF 153.5 million.
11) Equity in % of total assets.
12) Cash flow from operating activities + cash flow from investing activities.
13) Free cash flow – cash consideration for acquisitions and from divestments, net of cash acquired / divested.

Interim consolidated financial statements as of September 30, 2019

Consolidated income statements

April 1 to September 30, in CHF million	2019	2018[1]
Sales	**1,426.3**	**1,303.3**
Cost of sales	(416.8)	(383.9)
Gross profit	**1,009.6**	**919.4**
Research and development[2]	(81.6)	(72.2)
Sales and marketing[2]	(538.5)	(496.9)
General and administration	(148.4)	(126.5)
Other income / (expenses), net	0.2	3.8
Operating profit (EBIT)[3]	**241.2**	**227.7**
Financial income	1.2	0.7
Financial expenses	(7.7)	(5.9)
Share of profit / (loss) in associates / joint ventures, net	1.2	1.0
Income before taxes	**236.0**	**223.5**
Income taxes[4]	122.4	(30.2)
Income after taxes[4]	**358.4**	**193.4**
Attributable to:		
Equity holders of the parent	355.4	190.2
Non-controlling interests	2.9	3.2
Basic earnings per share (CHF)[4]	5.55	2.91
Diluted earnings per share (CHF)[4]	5.52	2.90

1) The disclosure of the figures of 2018 was adjusted to include acquisition-related amortization in the functions “Research and development” and “Sales and marketing” as disclosed in Note 4.
2) Includes acquisition-related amortization of CHF 0.5 million (previous year: CHF 0.5 million) in “Research and development” and CHF 22.4 million (previous year: CHF 23.1 million) in “Sales and marketing”. EBITA (Earnings before financial result, share of profit / (loss) in associates / joint ventures, taxes and acquisition-related amortization) amounts to CHF 264.0 million (previous year: CHF 251.3 million). Refer to Note 4.
3) Earnings before financial result, share of profit / (loss) in associates / joint ventures and taxes (EBIT).
4) In 2019, including one-time positive transition impacts of the Swiss tax reform of CHF 154.3 million.

The Notes are an integral part of the interim consolidated financial statements.

Consolidated statements of comprehensive income

April 1 to September 30, in CHF million	2019	2018
Income after taxes	**358.4**	**193.4**
Other comprehensive income		
Actuarial (loss) / gain from defined benefit plans, net	(17.3)	(5.0)
Tax effect on actuarial result from defined benefit plans, net	1.6	0.7
Total items not to be reclassified to income statement in subsequent periods	**(15.7)**	**(4.3)**
Currency translation differences	(56.7)	(53.5)
Tax effect on currency translation items	1.9	1.9
Total items to be reclassified to income statement in subsequent periods	**(54.8)**	**(51.7)**
Other comprehensive income, net of tax	**(70.5)**	**(55.9)**
Total comprehensive income	**287.9**	**137.4**
Attributable to:		
Equity holders of the parent	286.4	135.4
Non-controlling interests	1.5	2.0

The Notes are an integral part of the interim consolidated financial statements.

Consolidated balance sheets

Assets CHF million	**30.9.2019**	**31.3.2019**	**30.9.2018**
Cash and cash equivalents	242.0	374.8	484.3
Other current financial assets	6.1	11.0	5.2
Trade receivables	428.8	520.6	426.7
Current income tax receivables	12.6	9.2	8.5
Inventories	269.2	282.1	259.6
Other current operating assets	127.3	114.3	114.7
Total current assets	**1,086.0**	**1,311.9**	**1,298.9**
Property, plant and equipment	325.6	324.9	311.8
Right-of-use assets[1]	265.5		
Intangible assets	2,487.8	2,463.2	2,429.8
Investments in associates / joint ventures	18.7	12.8	14.0
Other non-current financial assets	30.2	29.0	27.3
Other non-current operating assets	6.0	6.5	6.1
Deferred tax assets[2]	292.0	144.2	146.3
Total non-current assets	**3,425.7**	**2,980.6**	**2,935.4**
Total assets	**4,511.7**	**4,292.5**	**4,234.3**

Liabilities and equity CHF million	**30.9.2019**	**31.3.2019**	**30.9.2018**
Current financial liabilities	326.8	256.4	155.5
Current lease liabilities[1]	60.4		
Trade payables	68.3	102.8	65.7
Current income tax liabilities	122.2	139.2	143.3
Short-term contract liabilities	101.5	106.5	106.5
Other short-term operating liabilities	313.8	296.0	239.3
Short-term provisions[1]	137.6	129.2	103.8
Total current liabilities	**1,130.7**	**1,030.1**	**814.1**
Non-current financial liabilities	399.8	372.6	619.5
Non-current lease liabilities[1]	211.7		
Long-term provisions[1]	117.8	122.9	144.2
Long-term contract liabilities	224.3	226.1	219.3
Other long-term operating liabilities	44.6	26.0	13.1
Deferred tax liabilities[3]	130.3	138.6	141.1
Total non-current liabilities	**1,128.6**	**886.3**	**1,137.2**
Total liabilities	**2,259.3**	**1,916.3**	**1,951.3**
Share capital	3.2	3.3	3.3
Treasury shares	(201.3)	(166.9)	(6.9)
Retained earnings and reserves	2,432.8	2,517.5	2,266.3
Equity attributable to equity holders of the parent	**2,234.7**	**2,353.8**	**2,262.7**
Non-controlling interests	17.7	22.3	20.3
Equity	**2,252.4**	**2,376.1**	**2,283.0**
Total liabilities and equity	**4,511.7**	**4,292.5**	**4,234.3**

1) Impacted by the implementation of IFRS 16, for further information refer to Note 3.
2) In the first half of financial year 2019 / 20, including one-time positive transition impacts of the Swiss tax reform of CHF 150.0 million. Excluding these effects, deferred tax assets amount to CHF 142.0 million.
3) In the first half of financial year 2019 / 20, including one-time positive transition impacts of the Swiss tax reform of CHF 3.5 million. Excluding these effects, deferred tax liabilities amount to CHF 133.8 million.

The Notes are an integral part of the interim consolidated financial statements.

Consolidated cash flow statements

April 1 to September 30, in CHF million		2019		2018
Income before taxes		**236.0**		**223.5**
Depreciation and amortization of tangible and intangible assets[1]	100.2		63.5	
Loss on sale of tangible and intangible assets, net	0.1		0.1	
Share of gain in associates / joint ventures, net	(1.2)		(1.0)	
Increase in long-term provisions and long-term contract liabilities	1.7		5.6	
Financial expense / (income), net[1]	6.5		5.2	
Share based payments	10.7		9.7	
Other non-cash items	(4.9)		(6.8)	
Income taxes paid	(51.9)	61.1	(30.6)	45.8
Cash flow before changes in net working capital		**297.1**		**269.3**
Decrease in trade receivables	82.0		6.4	
Increase in other receivables and prepaid expenses	(7.9)		(16.7)	
Decrease in inventories	10.2		2.6	
Decrease in trade payables	(33.6)		(22.8)	
Increase / (decrease) in other payables, accruals, short-term provisions and short-term contract liabilities	16.7	67.5	(17.1)	(47.6)
Cash flow from operating activities		**364.6**		**221.7**
Purchase of tangible and intangible assets	(61.0)		(51.9)	
Proceeds from sale of tangible and intangible assets	0.6		0.2	
Cash consideration for acquisitions, net of cash acquired	(40.7)		(24.9)	
Cash consideration from divestments, net of cash divested			1.5	
Changes in other financial assets	(1.5)		(5.0)	
Interest received	1.0		0.5	
Cash flow from investing activities		**(101.7)**		**(79.6)**
Proceeds from borrowings	50.3			
Repayment of borrowings			0.0	
Repayment of lease liabilities[1]	(33.2)			
Share buyback program	(159.8)			
Sale of treasury shares[2]	23.4		21.3	
Purchase of treasury shares	(78.8)		(53.2)	
Dividends paid by Sonova Holding AG	(186.5)		(169.8)	
Dividends to non-controlling interests	(6.1)		(4.8)	
Interest paid[1]	(2.4)		(0.7)	
Cash flow from financing activities		**(393.0)**		**(207.2)**
Exchange losses on cash and cash equivalents		(2.7)		(2.9)
Decrease in cash and cash equivalents		**(132.7)**		**(67.9)**
Cash and cash equivalents as of April 1		374.8		552.1
Cash and cash equivalents as of September 30		**242.0**		**484.3**

[1] Impacted by the implementation of IFRS 16, for further information refer to Note 3.
[2] In relation to long-term equity incentive plans.

The Notes are an integral part of the interim consolidated financial statements.

Consolidated changes in equity

CHF million

	Attributable to equity holders of Sonova Holding AG					
	Share capital	Retained earnings and other reserves	Translation adjustment	Treasury shares	Non-controlling interests	Total equity
Balance April 1, 2018	**3.3**	**2,659.9**	**(210.9)**	**(0.5)**	**23.2**	**2,474.9**
Effect on initial application of IFRS 15 and IFRS 9		(132.9)			(0.1)	(133.1)
Adjusted balance April 1, 2018	**3.3**	**2,527.0**	**(210.9)**	**(0.5)**	**23.1**	**2,341.9**
Income for the period		190.2			3.2	193.4
Actuarial loss from defined benefit plans, net		(5.0)				(5.0)
Tax effect on actuarial result		0.7				0.7
Currency translation differences			(52.4)		(1.2)	(53.5)
Tax effect on currency translation			1.9			1.9
Total comprehensive income		**185.9**	**(50.5)**		**2.0**	**137.4**
Share-based payments		(2.4)				(2.4)
Sale of treasury shares[1]		(13.6)		46.8		33.2
Purchase of treasury shares				(53.2)		(53.2)
Dividend paid		(169.8)			(4.8)	(174.5)
Balance September 30, 2018	**3.3**	**2,527.1**	**(261.4)**	**(6.9)**	**20.3**	**2,282.4**

	Share capital	Retained earnings and other reserves	Translation adjustment	Treasury shares	Non-controlling interests	Total equity
Balance April 1, 2019	**3.3**	**2,784.3**	**(266.8)**	**(166.9)**	**22.3**	**2,376.1**
Income for the period		355.4			2.9	358.4
Actuarial loss from defined benefit plans, net		(17.3)				(17.3)
Tax effect on actuarial result		1.6				1.6
Currency translation differences			(55.3)		(1.4)	(56.7)
Tax effect on currency translation			1.9			1.9
Total comprehensive income		**339.7**	**(53.4)**		**1.5**	**287.9**
Capital decrease – share buyback program	(0.0)	(157.8)		157.9		
Share-based payments		(1.5)				(1.5)
Sale of treasury shares[1]		(25.2)		60.1		34.8
Purchase of treasury shares[2]				(252.4)		(252.4)
Dividend paid		(186.5)			(6.1)	(192.6)
Balance September 30, 2019	**3.2**	**2,753.0**	**(320.2)**	**(201.3)**	**17.7**	**2,252.4**

1) In relation to long-term equity incentive plans.
2) Further information on the share buyback program are disclosed in Note 11.

The Notes are an integral part of the interim consolidated financial statements.

Notes to the interim consolidated financial statements as of September 30, 2019

1. Corporate information

The Sonova Group (the "Group") specializes in the design, development, manufacture, worldwide distribution and service of technologically advanced hearing systems for adults and children with hearing impairment. The Group operates worldwide and distributes its products in over 100 countries through its own distribution network and through independent distributors. The Group operates in industries where no material seasonal or cyclical variations in sales are experienced. The ultimate parent company is Sonova Holding AG, a public limited liability company incorporated in Switzerland. Sonova Holding AG's registered office is located at Laubisrütistrasse 28, 8712 Stäfa, Switzerland.

2. Basis of preparation of the consolidated financial statements

These unaudited financial statements are the interim consolidated financial statements of Sonova Holding AG and its subsidiaries for the six month period that ended September 30, 2019. These financial statements are prepared in accordance with IAS 34 "Interim Financial Reporting" and should be read in conjunction with the consolidated financial statements for the year that ended March 31, 2019. The interim consolidated financial statements were approved by the Board of Directors on November 12, 2019.

The preparation of financial statements requires management to make assumptions and estimates that affect the amounts reported for assets and liabilities and contingent assets and liabilities at the date of the financial statements as well as revenue and expenses reported. Actual results could differ from these estimates.

As of September 30, 2019, the actuarial valuations for the main pension plans were updated. For the Swiss pension plans the discount rate was decreased from 0.55% as per March 31, 2019 to 0.10%.

Income tax expense is recognized based upon the best estimate of the average annual income tax rate expected for the full year excluding one-time effects from the Swiss tax reform as disclosed in Note 5.

3. Changes in accounting policies

Except for the new and revised IFRS standards and amendments, the Group consistently applied the same accounting policies as in the Annual Financial Statements for the financial year that ended March 31, 2019.

The Group adopted IFRS 16 "Leases" beginning April 1, 2019 as described below. In addition, a number of minor amendments to existing standards and interpretations (including IFRIC 23 – Uncertainty over Income Tax Treatments) were effective from April 1, 2019 without having a significant impact on the Group's result and financial position.

The Group is currently assessing the potential impacts of the various new and revised standards and interpretations that will be effective for the financial year starting April 1, 2020 and beyond, as summarized in the Annual Financial Statements.

IFRS 16 "Leases"

The standard replaces IAS 17 and sets out new principles for recognition, measurement, presentation and disclosure of leases. The standard provides a single lessee accounting model that requires lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

The main impact for the Group is on the recognition of new assets and liabilities, primarily for its property and car lease agreements. In addition, the nature of the expenses related to those leases changes as IFRS 16 replaces the straight-line operating lease expenses with a depreciation charge for right-of-use assets and interest expenses on lease liabilities. In the consolidated cash flow statement, repayment of lease liabilities is included in financing activities and no longer in cash flow from operating activities.

The Group has adopted IFRS 16 using the modified retrospective approach. Accordingly, the information presented for the prior period has not been restated and is presented as previously reported under IAS 17.

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at April 1, 2019. Right-of-use assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments recognized immediately before the date of initial application.

The reconciliation of payment obligations from operating leases as at March 31, 2019 for initial recognition as at April 1, 2019 is as follows:

in CHF million	**April 1, 2019**
Operating lease commitments as at March 31, 2019 (IAS 17)	**234.6**
Discounting using the incremental borrowing rate as at April 1, 2019	(14.0)
Short-term and low value leases recognized on a straight-line basis as expense	(4.3)
Adjustments relating to different treatment of contracts and extension and termination options	68.7
Lease liabilities as at April 1, 2019	**285.0**
thereof short-term	63.1
thereof long-term	221.9

The weighted average incremental borrowing rate as at April 1, 2019 was 1.4 %.

Impact on consolidated balance sheet and cash flow statement

The following table summarizes the impact of IFRS 16 on the Group's consolidated balance sheet as at April 1, 2019 and on the consolidated cash flow statement for the first half of financial year 2019 / 20 for each of the line items affected. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

Balance sheet

Assets CHF million	**1.4.2019 with IFRS 16**	**IFRS 16 effect**	**31.3.2019 without IFRS 16**
Right-of-use assets	278.1	278.1	
Total non-current assets	**3,258.7**	**278.1**	**2,980.6**
Total assets	**4,570.6**	**278.1**	**4,292.5**

Liabilities and equity CHF million	**1.4.2019 with IFRS 16**	**IFRS 16 effect**	**31.3.2019 without IFRS 16**
Current lease liabilities	63.1	63.1	
Short-term provisions	128.2	(1.0)	129.2
Total current liabilities	**1,092.2**	**62.1**	**1,030.1**
Non-current lease liabilities	221.9	221.9	
Long-term provisions	117.0	(5.9)	122.9
Total non-current liabilities	**1,102.3**	**216.0**	**886.3**
Total liabilities	**2,194.4**	**278.1**	**1,916.3**
Total liabilities and equity	**4,570.6**	**278.1**	**4,292.5**

Consolidated cash flow statement

April 1 to September 30, in CHF million	**2019 with IFRS 16**	**IFRS 16 effect**	**2019 without IFRS 16**
Income before taxes	**236.0**	**0.3**	**235.7**
Depreciation and amortization of tangible and intangible assets	100.2	32.9	67.3
Financial expense / (income), net	6.5	1.9	4.6
Cash flow from operating activities	**364.6**	**35.1**	**329.5**
Repayment of lease liabilities	(33.2)	(33.2)	
Interest paid	(2.4)	(1.9)	(0.5)
Cash flow from financing activities	**(393.0)**	**(35.1)**	**(357.9)**

As a result of IFRS 16, the cash flow from operating activities for the first half of financial year 2019 / 20 increased by CHF 35.1 million and the cash flow from financing activities reduced by the same amount.

For the first half of financial year 2019 / 20 the adoption of IFRS 16 had a minor positive impact of CHF 2.2 million on the EBITA result and CHF 0.3 million on income after taxes.

Accounting policies

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less accumulated depreciation and impairment losses as well as adjustments for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date and are discounted using the Group's incremental borrowing rate. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

Accounting judgements and estimates

The Group applies judgement to determine the lease term for some lease contracts which includes renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term which significantly affects the amount of lease liabilities and right-of-use assets recognized.

4. Income statement reconciliation

The Group presents the "Consolidated income statement" based on a classification of costs by function and is continuously amending its business portfolio with acquisitions, resulting in acquisition-related intangibles and related amortization charges. To calculate EBITA[1], which is the key profit metric for internal as well as external purposes, acquisition-related amortization is separated from the individual functions as disclosed below.

April 1 to September 30, CHF million			2019
	Income statement as reported	Acquis. related amortization	**Income statement EBITA separation**
Sales	**1,426.3**		**1,426.3**
Cost of sales	(416.8)		(416.8)
Gross profit	**1,009.6**		**1,009.6**
Research and development	(81.6)	0.5	(81.2)
Sales and marketing	(538.5)	22.4	(516.1)
General and administration	(148.4)		(148.4)
Other income / (expenses), net	0.2		0.2
Operating profit before acquisition-related amortization (EBITA)[1]			**264.0**
Acquisition-related amortization		(22.8)	(22.8)
Operating profit (EBIT)[2]	**241.2**		**241.2**

April 1 to September 30, CHF million			2018
	Income statement as reported	Acquis. related amortization	**Income statement EBITA separation**
Sales	**1,303.3**		**1,303.3**
Cost of sales	(383.9)		(383.9)
Gross profit	**919.4**		**919.4**
Research and development	(72.2)	0.5	(71.7)
Sales and marketing	(496.9)	23.1	(473.7)
General and administration	(126.5)		(126.5)
Other income / (expenses), net	3.8		3.8
Operating profit before acquisition-related amortization (EBITA)[1]			**251.3**
Acquisition-related amortization		(23.6)	(23.6)
Operating profit (EBIT)[2]	**227.7**		**227.7**

[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).

5. Significant events and transactions

Swiss tax reform

On May 19, 2019, the Swiss electorate passed the Federal Act on Tax Reform and AHV Financing (TRAF). The tax reform abolishes the tax regimes for holding, domiciliary and mixed companies as of January 1, 2020 and introduces new tax measures. To the extent that the tax reform requires cantonal and communal tax law changes, these have to be implemented through modification of the cantonal tax law. On September 1, 2019, in a public vote, the electorate of the canton of Zurich accepted the respective revision of the cantonal tax law. The relevant changes to the Group include a decrease in the statutory income tax rate in the canton of Zurich, effective from January 1, 2021. As a result, the Group has revalued its Swiss deferred tax positions which resulted in a one-time deferred tax income of CHF 3.5 million (decrease in deferred tax liability) during the first half of financial year 2019 / 20 and a one-time impact of CHF 0.8 million (decrease in deferred tax asset) within other comprehensive income.

As part of the TRAF and cantonal tax practice, transitional measures were introduced in order to ease the transition from the preferential regimes to the new tax measures. For the Group, these measures allow amongst others the tax-effective amortization over a period of up to 10 years of a step-up amount. As a consequence the Group capitalized deferred tax assets in the amount of CHF 150.8 million with a corresponding one-time deferred tax income in the first half of financial year 2019 / 20. The calculation of the deferred tax assets required management to make significant estimates and assumptions. The final outcome is still uncertain and might lead to adjustments in the second half of the current or the next financial year.

In total, the Swiss tax reform had a positive impact of CHF 154.3 million on income after taxes in the first half of financial year 2019 / 20. Excluding these effects, income after taxes amounted to CHF 204.1 million and basic earnings per share amounted to CHF 3.14.

Excluding the effects from the Swiss tax reform, the Group expects a tax rate of 13.5 % for the financial year 2019 / 20.

6. Changes in Group structure

During the first six months of financial year 2019 / 20 several small companies were acquired in EMEA and North America. During first half of 2018 / 19 several small companies were acquired in Europe and North America.

In the current financial period, the Group acquired a 51 % majority stake in a company active in technology development. An agreement has been concluded with the seller for the acquisition of the remaining 49 % shares in the company. Based on the terms and conditions of the agreement, the Group considers the outstanding minority interests to have already been acquired and consolidates 100 % of the company since acquisition.

Except for one acquisition, which is active in research and development, all other acquired companies are engaged in the business of selling hearing instruments. All acquisitions have been accounted for by applying the purchase method of accounting. Incremental assets and liabilities resulting from the acquisitions are as follows:

CHF million	2019	2018
	Total	Total
Trade receivables	0.1	0.7
Other current assets	0.6	1.8
Property, plant & equipment	0.3	0.7
Intangible assets	12.5	7.0
Other non-current assets	0.4	0.5
Current liabilities	(1.1)	(2.6)
Non-current liabilities	(3.9)	(6.6)
Net assets	**8.9**	**1.5**
Goodwill	77.7	18.8
Purchase consideration	**86.6**	**20.2**
Liabilities for contingent considerations and deferred payments	(47.6)	(2.2)
Cash and cash equivalents acquired	(0.4)	(1.1)
Cash outflow for investments in associates, contingent considerations and deferred payments	2.1	8.1
Total consideration paid, net of cash acquired	**40.7**	**24.9**

The initial accounting for the acquisitions completed in the current financial year is provisional and the fair values assigned to the identifiable assets acquired and liabilities assumed are still subject to change.

Liabilities for contingent considerations amount to CHF 35.8 million (prior year period CHF 2.1 million) and deferred payments amount to CHF 11.8 million (prior year period CHF 0.1 million). Contingent considerations are dependent on the future performance of the acquired companies as well as contractual obligations and milestone achievements. The liability for contingent considerations is based on the latest estimate of the future performance and milestone achievement and is expected to be paid out in tranches over a period of 4 years.

The goodwill is attributed mainly to economies of scale and expected synergies such as favorable sales growth potential, increase in share of wallet and cost reduction in administrative and corporate functions as well as to the labor force. For one acquisition, the goodwill is mainly attributable to the labor force. Recognized goodwill is not expected to be deductible for income tax purposes.

Acquisition-related intangible assets in the amount of CHF 12.5 million (prior year period CHF 7.0 million) contain in-process research & development of CHF 7.0 million (prior year period: none) and customer relationships of CHF 5.5 million (prior year period CHF 7.0 million). The assigned lifetime range is 5 years for in-process research & development and between 10 and 15 years for customer relationships. On these intangibles deferred taxes have been considered.

Acquisition-related transaction costs in the amount of CHF 0.5 million (prior year period CHF 0.1 million) have been expensed and are included in the line “General and administration”.

In the first six months of reporting period 2018 / 19, the Group divested several Audiological Care stores in the US region. The total consideration amounting of CHF 1.5 million was settled in cash. The resulting net loss of those transactions of CHF 0.1 million has been recognized in the income statement and is included in "other income / (expenses), net".

April 1 to September 30, CHF million	2019	2018
	Total	Total
Contribution of acquired companies from date of acquisition		
Sales	1.7	1.3
Net income	0.2	0.2
Contribution, if the acquisitions occurred on April 1		
Sales	3.2	5.1
Net income	1.1	1.2

7. Segment information

The Group is active in two business segments, Hearing Instruments and Cochlear Implants.

The segment information for the first six months of financial years 2019 / 20 and 2018 / 19 is as follows:

CHF million	2019	2018	2019	2018	2019	2018	2019	2018
	Hearing Instruments		Cochlear Implants		Corporate / Eliminations		Total	
Segment sales	1,300.6	1,195.0	133.9	110.6			1,434.5	1,305.7
Intersegment sales	(6.5)	(1.1)	(1.7)	(1.3)			(8.2)	(2.4)
Sales	**1,294.1**	**1,194.0**	**132.2**	**109.4**			**1,426.3**	**1,303.3**
Timing of revenue recognition								
At point in time	1,210.8	1,110.8	128.3	106.1			1,339.1	1,216.9
Over time	83.3	83.2	3.9	3.3			87.2	86.5
Total sales	**1,294.1**	**1,194.0**	**132.2**	**109.4**			**1,426.3**	**1,303.3**
Operating profit before acquisition-related amortization (EBITA)	**255.7**	**243.9**	**8.9**	**7.7**	**(0.6)**	**(0.3)**	**264.0**	**251.3**
Depreciation and amortization	(85.9)	(53.8)	(14.3)	(9.7)			(100.2)	(63.5)
Segment assets	**4,119.3**	**3,752.8**	**648.6**	**610.2**	**(809.0)**	**(773.4)**	**3,958.9**	**3,589.6**
Unallocated assets[1]							552.8	644.6
Total assets							**4,511.7**	**4,234.3**

[1] Unallocated assets include cash and cash equivalents, other current financial assets (excluding loans), investments in associates / joint ventures, employee benefit assets and deferred tax assets.

Reconciliation of reportable segment profit CHF million	2019	2018
EBITA	264.0	251.3
Acquisition-related amortization	(22.8)	(23.6)
Financial costs, net	(6.5)	(5.2)
Share of gain / (loss) in associates / joint ventures, net	1.2	1.0
Income before taxes	**236.0**	**223.5**

8. Earnings per share

Basic earnings per share is calculated by dividing the income after taxes attributable to the ordinary equity holders of the parent company by the weighted average number of shares outstanding during the year.

Basic earnings per share	2019	2018
Income after taxes (CHF million)	355.4	190.2
Weighted average number of outstanding shares	64,031,791	65,312,964
Basic earnings per share (CHF)[1)]	**5.55**	**2.91**

1) In the first half of financial year 2019/20, including one-time positive transition impacts of the Swiss tax reform of CHF 154.3 million.

In the case of diluted earnings per share, the weighted average number of shares outstanding is adjusted for all outstanding dilutive options. The weighted average number of shares is adjusted for all dilutive options issued under the stock option plans which have been granted in 2012 through 2019 and which have not yet been exercised. The calculation of diluted earnings per share is based on the same income after taxes for the period as used in calculating basic earnings per share.

Diluted earnings per share	2019	2018
Income after taxes (CHF million)	355.4	190.2
Weighted average number of outstanding shares	64,031,791	65,312,964
Adjustment for dilutive share options	382,993	297,066
Adjusted weighted average number of outstanding shares	64,414,784	65,610,030
Diluted earnings per share (CHF)[1)]	**5.52**	**2.90**

1) In the first half of financial year 2019/20, including one-time positive transition impacts of the Swiss tax reform of CHF 154.3 million.

9. Contingent assets and liabilities

There have been no material changes in contingent assets and liabilities since March 31, 2019.

10. Financial liabilities

As of September 30, 2019, unchanged to March 31, 2019, the Group has bonds in two tranches outstanding.

Bonds (CHF million)	Currency	Nominal value	Maturity
Fixed-rate bond	CHF	250	October 11, 2019
Fixed-rate bond	CHF	360	October 11, 2021

In the first six months of financial year 2019/20, the Group entered into an agreement for a credit facility in the amount of CHF 150 million with an option to increase to CHF 250 million. The agreement ends on June 30, 2022 with an additional option to extend until August 31, 2024. As of September 30, 2019 the credit facility was not drawn.

The Group maintains further uncommitted credit facilities from various lenders. The credit facilities are denominated in CHF, do not contain financial covenants and can be cancelled at short notice. As of September 30, 2019 CHF 50 million were drawn with a one month maturity.

11. Movements in share capital

The Annual General Shareholders' Meeting of June 13, 2019 declared a gross dividend of CHF 2.90 per registered share for the financial year 2018/19. The dividend was paid in June 2019 to all shares outstanding, excluding treasury shares.

On August 31, 2018, Sonova Holding AG announced that its Board of Directors approved a new share buyback program of up to CHF 1.5 billion (but for a maximum of 11,759,560 registered shares). The shares are repurchased for the purpose of a capital reduction, subject to approval by future Annual General Shareholders' Meetings. The new program started in October 2018 and will run up to 36 months. For further details refer to the Group's media releases.

Issued registered shares	Issued registered shares	Treasury shares[1]	Outstanding shares
Balance April 1, 2018	65,330,887	(3,622)	65,327,265
Purchase of treasury shares		(303,000)	(303,000)
Sale/transfer of treasury shares		267,797	267,797
Balance September 30, 2018	**65,330,887**	**(38,825)**	**65,292,062**
Balance April 1, 2019	65,330,887	(966,324)	64,364,563
Purchase of treasury shares		(352,421)	(352,421)
Sale/transfer of treasury shares		273,755	273,755
Cancellation of treasury shares[2]	(932,750)	932,750	
Purchase of shares intended to be cancelled[3]		(780,350)	(780,350)
Balance September 30, 2019	**64,398,137**	**(892,590)**	**63,505,547**

Each share has a nominal value of CHF 0.05.

1) Treasury shares are purchased on the open market and are not entitled to dividends.

2) The Annual General Shareholder's Meeting of June 13, 2019, approved the proposed cancellation of 932,750 treasury shares, resulting in a reduction of share capital of 46,637.50 Swiss francs, retained earnings and other reserves of CHF 157.8 million offset by changes in treasury shares of CHF 157.9 million. This cancellation has been executed on September 24, 2019.

3) Shares purchased by the Group as part of the share buyback program.

12. Events after balance sheet date

On October 11, 2019, the Group repaid a CHF 250 million three year fixed-rate bond and issued new fixed-rate bonds in two tranches of CHF 100 million each. The two bonds were issued at 100% with interest rates of 0.0% and 0.4% and maturity on October 11, 2029 and October 11, 2034, respectively.

Sonova Holding AG
Laubisrütistrasse 28
8712 Stäfa
Switzerland

Phone +41 58 928 33 33
Fax +41 58 928 33 99
E-mail ir@sonova.com
Website www.sonova.com

Disclaimer

This report contains forward-looking statements, which offer no guarantee with regard to future performance. These statements are made on the basis of management's views and assumptions regarding future events and business performance at the time the statements are made. They are subject to risks and uncertainties including, but not confined to, future global economic conditions, exchange rates, legal provisions, market conditions, activities by competitors and other factors outside Sonova's control. Should one or more of these risks or uncertainties materialize or should underlying assumptions prove incorrect, actual outcomes may vary materially from those forecasted or expected. Each forward-looking statement speaks only as of the date of the particular statement, and Sonova undertakes no obligation to publicly update or revise any forward-looking statements, except as required by law.

This Semi-Annual Report is also available in German.
The English version is the governing text.

Imprint
Publishing system: ns.publish by mms solutions AG

Our brands

PHONAK unitron HANSATON Advanced Bionics ADVANCED BIONICS