

Sonova Holding AG

CORE HOLDING*

Recommended since 24.11.23

27.11.2024



Country CH	Market capitalization (bn) CHF 17,7
Sector Health Care	Free float 82,3%
Factset SOON-CH	Closing price CHF 304,60
ISIN CH0012549785	ESG Risk score* 14,3 Low risk

Perf. since reco. (%)
Sonova Holding AG 21,3
Sector 8,9



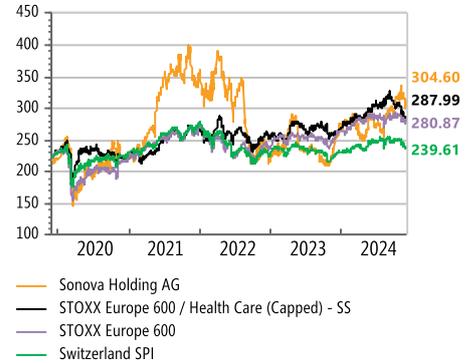
*From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

Profile

Swiss hearing aid specialist Sonova traces its roots back to the creation of "AG für Elektroakustik" in 1947. This vertically integrated business is split into two segments: 1/ Hearing instruments, including product offering under the Phonak, Unitron and Hansaton brands (48% of sales), the distribution business Audiological Care (37% of sales) and the Consumer Hearing offer (8% of sales - headphones, soundbars, other audio products); 2/ Cochlear implants via the Advanced Bionics brand (8% of sales).

Market - competition - positions - barriers to entry

Sonova is the global leader in hearing aids, where it is growing at 3-5% a year, world number two in distribution (behind Amplifon), with growth of 3-5% a year, and world number three in cochlear implants (behind Cochlear Limited and MED-EL), with growth of 5-10% a year. Barriers to entry are relatively high: constant innovation (with R&D accounting for 5-6% of sales), an increasingly sophisticated and complex product offering and relationships of trust with audiologists.



Source: Factset

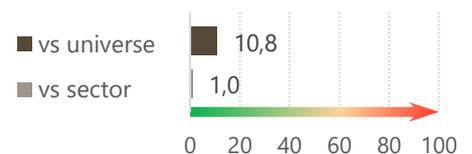
Investment case

- The fundamentals of the hearing market remain robust in the medium to long term with an average growth of 4% to 5% a year buoyed by the ageing population, increasing adoption of hearing aids together with a still low penetration rate (ca. 20% in developed countries), and the expansion of digital solutions (screening, coaching, monitoring, and adjusting performance).
- The 2022-24 period proved more difficult for Sonova, with both a slowdown and greater market volatility ; intensifying competition (launch of new platforms by GN and Demant), leading to an erosion of the Group's market share ; the loss of Costco contract ; and pressure on margins.
- The outlook for 2024-25 is much brighter, with the launch of two new platforms, Infinio and Infinio Sphere, which will contribute to performance from the 2nd half (Oct.-March). While Infinio offers improved sound quality and connection stability with smartphones, Infinio Sphere represents a clear technological advance. This platform is powered by the DEEPSONIC dual chip (a proprietary technology featuring a Deep Neural Network), providing real-time AI processing to instantly separate speech from background noise. With a Signal-to-Noise ratio of 10db vs. 6db currently (measuring speech transmission quality in a noisy environment), the platform offers a clear advance over its competitors. This is the most important launch since Marvel. Infinio technology will be marketed at a 5% premium to Lumity (the previous platform), while the premium for Infinio Sphere will be 10-15%.
- While the first half was negatively impacted by launch costs (sales up 5.9% but EBITA down 3.7% at constant exchange rates - CER), a clear recovery will be visible in the 2nd half. The 2024-25 targets (sales up 6-9% and EBITA up 7-11% at CER) imply EBITA growth of 14% in the second half of the fiscal year.

ESG - risks and key points

- Sonova's ESG risk level is low.
- Strong performance in corporate governance and management of ESG issues globally.
- The risk of defective product recalls and litigation is high (in line with the industry), especially for cochlear implants (requiring a surgical procedure), but Sonova has put in place an effective product quality and safety management system. The company has not experienced any major controversies in the past.

ESG risk vs. universe & sector (percentile)*



Source: Sustainalytics

Valuation** in CHF

Current price	Value Bordier Scenario
305	337

Our scenario assumes Swiss 10-year yields rising to 1.75%; sales growth averaging 6% a year out to 2036; an EBITA margin rising towards 26% by 2033 followed by stability over the rest of the period.

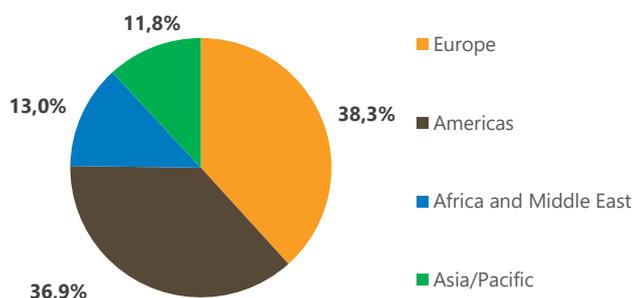
** The theoretical value reflects the company's business model, our baseline growth and profit scenario and market data, exogenous to the company (risk-free rate and equity risk premium). It does not in itself constitute a target price.

"Bordier Core Holding" indicators

In millions of CHF	2022-23	2023-24	2024-25e	2025-26e	2026-27e
Sales revenue	3 738	3 627	3 863	4 133	4 422
Sales growth %	11,1%	-2,7%	6,5%	7,0%	7,0%
a/w organic	14,6%	1,8%	8,0%	8,0%	7,0%
EBIT adjusted	840	771	811	930	1 017
% of sales	22,5%	21,3%	21,0%	22,5%	23,0%
Net income	671	615	636	737	809
Adjusted EPS	11,14	10,31	10,66	12,36	13,58
Adjusted EPS growth	4,3%	-7,5%	3,4%	16,0%	9,8%
Capex/Sales	4,1%	3,5%	3,5%	3,5%	3,5%
Free cash-flow	628	626	675	776	850
FCF/Sales	16,8%	17,3%	17,5%	18,8%	19,2%
Dividend per share	4,6	4,3	4,2	4,9	5,4
Dividend yield	1,7%	1,6%	1,4%	1,6%	1,8%
ROCE - WACC	12,1%	10,6%	9,4%	12,3%	13,8%
ROE (%)	30,3%	24,9%	22,6%	22,6%	21,7%
Net debt/Ebitda	151,7%	148,5%	93,8%	36,7%	-11,4%

Source: Factset, Bordier estimates

Sales breakdown - 03/2024



Ratios

	Sonova Holding AG	Sector	Stoxx Europe 600 Market
PE (x)***		Health Care	Stoxx 600
2023/24	24,1	19,5	14,4
2024/25e	25,3	18,4	14,4
2025/26e	28,6	16,2	13,2
P/B (x)***			
2023/24	7,2	3,7	2,0
2024/25e	6,3	3,5	1,9
2025/26e	6,5	3,3	1,8
Beta (2Y, daily) vs market:			1,28

***) The valuation ratios set out are provided for information only. They do not constitute the criteria based upon which Core Holdings are selected, and may present significant premi-ums representing the quality of the company's business model.

Governance and ownership structure

Since 2018 - CEO Arnd Kaldowski

Key shareholders (if any):

Beda Diethelm (10.19%); Hans-Ueli Rihs (5.71%); Andy Rihs (3.08%).

Agenda

13 May 2025: Full-Year Results 2024/25

10 June 2025: Annual General Meeting / 18 Nov. 2025: Half-year results 2025/26

Any special characteristics of ownership (multiple voting rights, controlling holding company, shareholders' agreements)

Glossary

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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