



## GMG Equity Research

## SONOVA

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18/10/2019

### Key data

Market capitalization (millions CHF)	14.625
Entreprise value (million CHF)	14.974
Share price (CH)	227,1

### Stock absolute and relative performance (CHF)

In %	Absolute	Relative *
1 month	2,9%	3,6%
3 months	1,7%	1,4%
6 months	14,8%	9,7%
YTD	43,2%	20,4%
1 year	39,7%	26,3%
2018	7,1%	15,7%
2017	25,1%	5,2%

\*relative to SPI

### Description

The firm is a world leader in hearing care solutions. Its market share is close to 25%.

It produces hearing prothesis under the brands Phonak, Unitron and Hansaton. They are sold through the company's own retail network of audiologists or through external audiologists, retail chains or governmental health institutions. In most countries, hearing aids are not reimbursed by the State health insurances.

After the acquisition of AudioNova in 2017, Sonova owns one of the largest specialized retail network in Europe.

A smaller division produces and sells cochlear implants under the brand Advanced Bionics. New customers are usually young children who are guided by a surgeon. Patients loyalty is extremely high as a change of supplier implies surgery. The cochlear implants market is clearly dominated by Cochlear, an Australian firm.

The US health authorities are encouraging the development of hearing aids that will be sold Over The Counter (OTC), that is, without the medical advice of an audiologist, or with a minimal audiologist's involvement. As a result, the sector could evolve away from the health sector and towards the discretionary consumers sector. New intrants specialized in consumers electronics could transform the competitive landscape.

These evolutions could be a threat to the incumbents such as Sonova; they could as well be an opportunity to increase the penetration of hearing aids among the large pool of people who suffer from mild hearing loss, but have so far not looked for help.

### Firm's performance

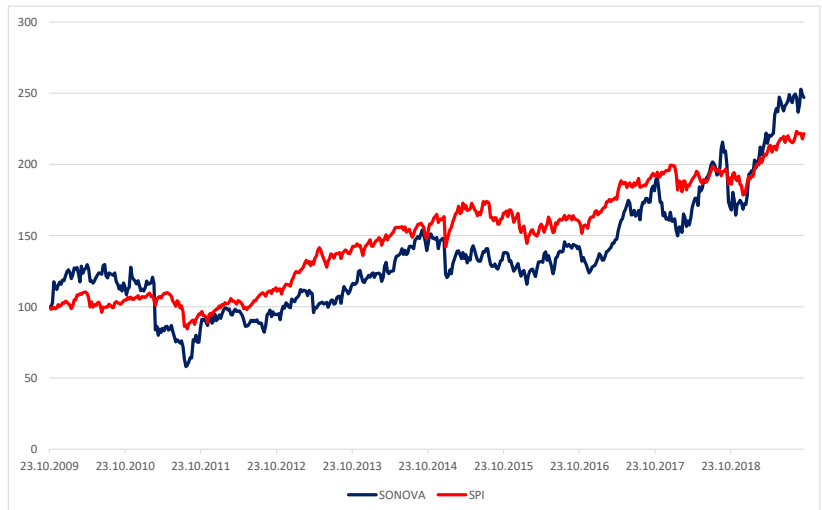
Since its IPO in 1994, Sonova achieved the fifth best performance amongst Swiss stocks. Its total return has been 17.8% per year in average.

However, Sonova has proven a volatile stock to own. Its value dropped of 60% or more on 3 occurrences, in 2000, 2007 and 2010.

Despite belonging to the usually non cyclical health universe, Sonova business can be substantially impacted by economic downturns, as its products are often ill reimbursed by health insurances and relatively expensive for many customers.

Moreover, the firm can be sensitive to its own and to the competitors' products lives cycles.

### Share price (10 years)



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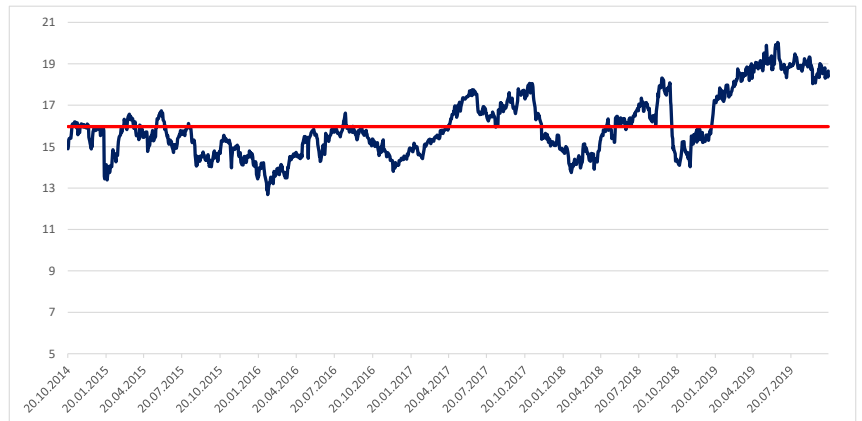
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**Valuation ratios**

	03/17	03/18	03/19	03/20e	03/21e
EV/EBITDA	16,1	16,4	19,7	19,2	17,9
PER	22,9	21,8	28,2	28,0	24,6
Free Cash Flow Yield	4,7%	4,3%	3,2%	3,3%	3,4%
Dividend Yield	1,7%	1,7%	1,5%	1,4%	1,6%
P/BV	4,3	4,0	5,4	6,2	6,2

**Bloomberg ESG ranking**

<b>Global ESG</b>	<b>54,5</b>
Environment	48,8
Social	49,1
Governance	73,2

**EV / EBITDA**

**Environment, Social & Governance comments**
**Environment**

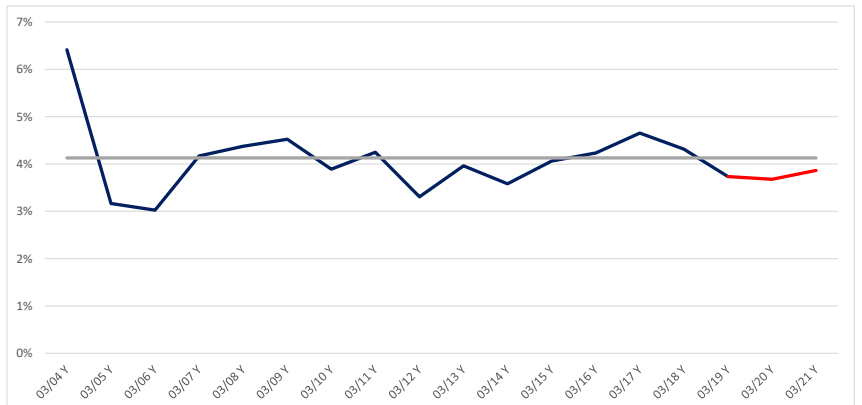
- The firm has set itself environmental targets. In 2018/2019, its greenhouse gas emission to revenue were reduced by 12%.

**Social**

- The firm's products have a positive social impact in general.  
 - The Hear the World Foundation, which is financed by Sonova, supports children in need with hearing loss around the world. The yearly budget of the philanthropic activities is close to 3.3 million CHF.

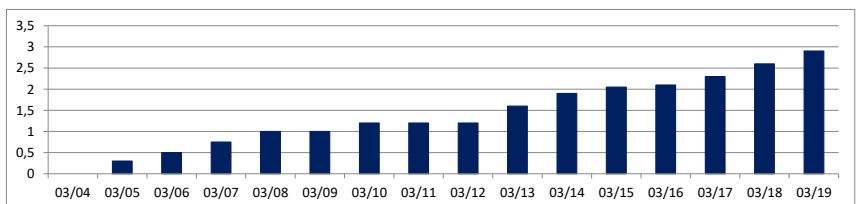
**Governance**

- The firm is a member of the Bloomberg Gender-Equality index.  
 - Members of the founder's family have been reducing their stake lower than 8.7%.  
 - Former key manager Beda Diethelm holds 10.2% of the stocks.  
 - The one stock one vote rule applies.

**Free Cash Flow Yield**

**ESG affiliations and codes of conduct**

UN Global Compact	✓
UN PRI (responsible investment)*	✓
Anti bribery policy	✓
Employee CSR training	✗
Fair remuneration policy	✗

\* Applicable to financial institutions

**Dividend per share (CHF)**




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**Performance ratios**

	03/17	03/18	03/19	03/20e	03/21e
Operating Margin	17,7%	18,3%	19,4%	19,1%	19,4%
ROIC	14,5%	12,5%	13,7%		
ROE	19,7%	18,1%	19,3%		
WC / Sales	22,2%	22,0%	10,2%		
Net Debt / EBITDA	68,1%	36,3%	36,5%		
Net Debt / Equity	18,8%	9,1%	10,2%		
Capex / D&A	66,6%	71,5%	92,4%		

**Financial statements (million CHF)**

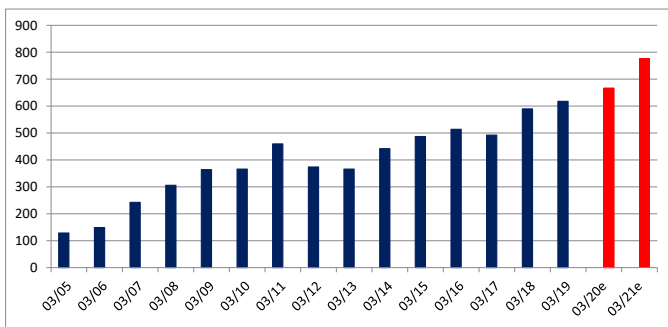
	03/17	03/18	03/19	03/20e	03/21e
Sales	2.396	2.646	2.763	2.973	3.154
<i>variation</i>		10,4%	4,4%	7,6%	6,1%
D&A costs	147	135	128		
EBITDA	590	618	667	780	839
<i>variation</i>		4,8%	7,9%	17,0%	7,5%
Net earnings	397	457	457	515	560
Total current assets	1.140	1.368	1.312		
Total fixed assets	2.795	2.934	2.981		
Shareholders equity	2.131	2.475	2.376		
Working capital	532	582	282		
Net debt	402	224	243		
Operating cash flow	521	524	533	654	688
Capex	-98	-96	-118	-116	-123
Free cash flow	423	428	415	538	565

**Chairman:** Robert F Spoerry  
Tenure (years): 8,7

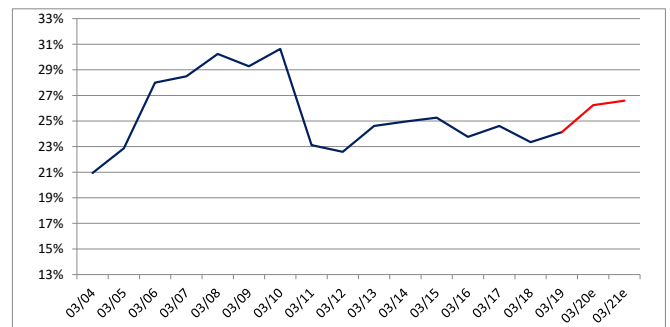
**CEO:** Arnd Kaldowski  
Tenure (years): 1,6

**CFO:** Hartwig Grevener  
Tenure (years): 7,3

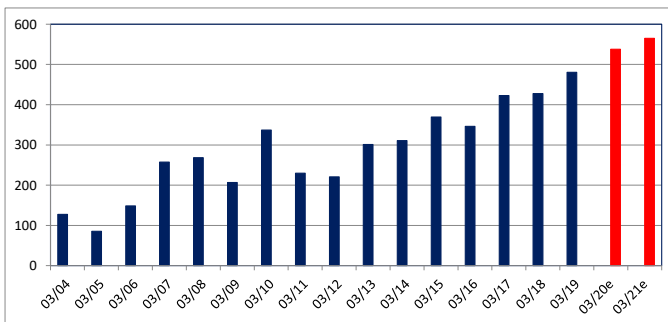
**EBITDA**



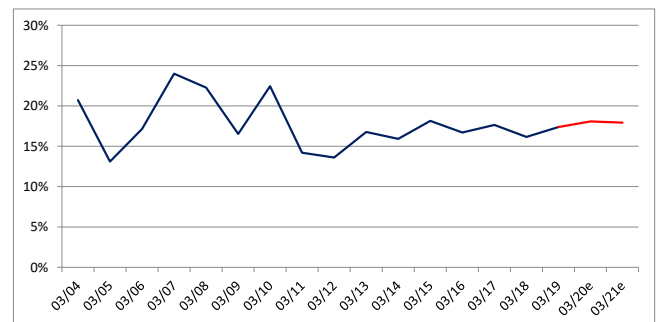
**EBITDA margin**



**Free cash flow**



**Free cash flow & Free cash flow / sales**





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### SWOT

#### Strengths

- Technology and partial control of the retail network mean the barriers to entry are high
- Well known brands

#### Weaknesses

- Dependence on products' cycles
- The cochlear implants division has been lagging the market for years

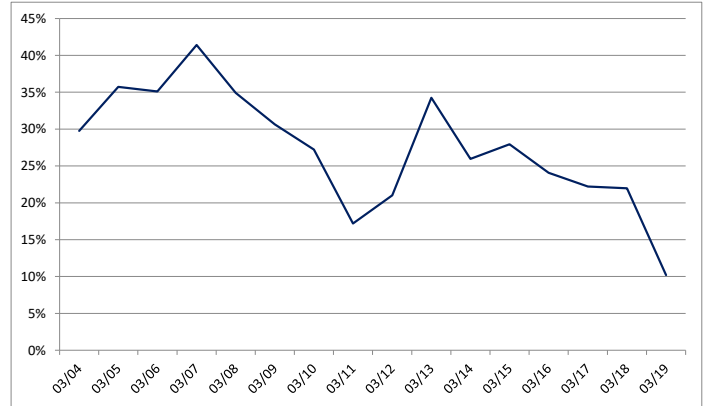
#### Opportunities

- In most countries, even the most developed ones, the penetration of hearing technologies is still low
- The firm should take advantage of the aging of the "baby boomers" and of rising standards of life

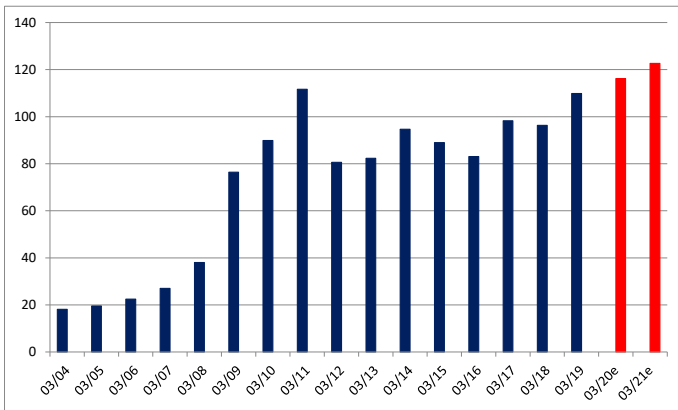
#### Threats

- The decision of the FDA to allow over-the-counter (OTC) hearing aids raises the risk that the market could shift away from the medical field towards the discretionary consumption field. Also, new entrants could be lured in.

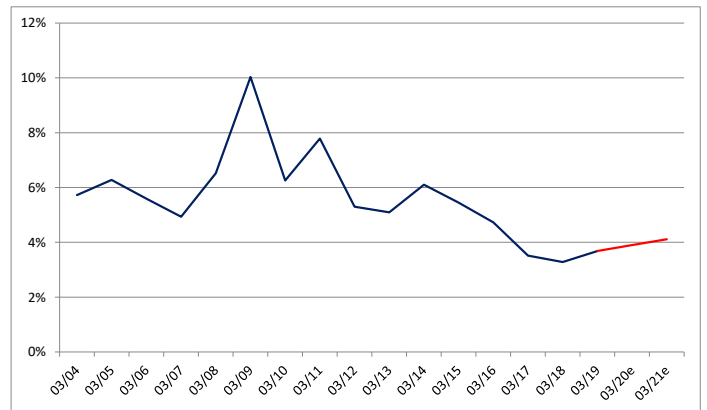
### Working capital / sales



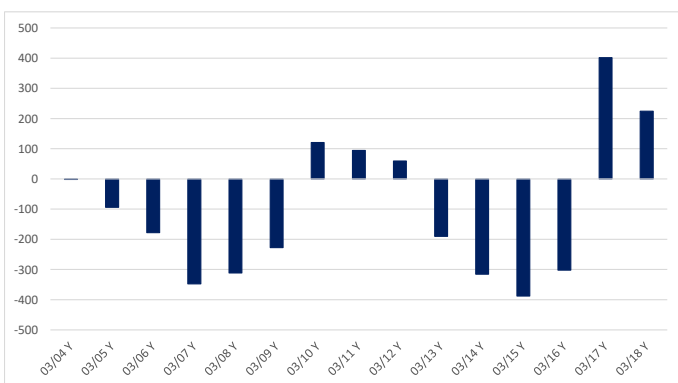
### CAPEX



### CAPEX / non current assets



### NET DEBT



### NET DEBT / EBITDA

