

Sonova Holding AG

CORE HOLDING*

Recommended since 26.06.18

10.06.2022



Country CH
Sector Health Care
Factset SOON-CH
ISIN CH0012549785

Market capitalization (bn) CHF 20.6
Free float 80.0%
Closing price CHF 333.60
ESG Risk score* 15.2 Low risk

Perf. since reco. (%)
Sonova Holding AG 92.3
Sector 42.0



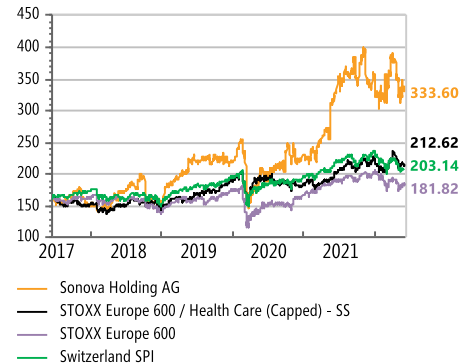
*From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely 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 aids, encompassing product ranges under the Phonak, Unitron and Hansaton brands (55% of sales) and distribution (37% of sales); and (2) cochlear implants under 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

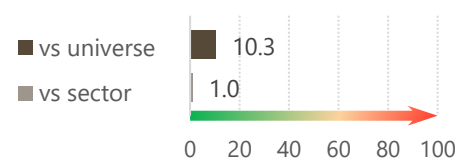
Investment case

- 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).
- Since mid-2018, Sonova has benefited from a favorable product launch cycle (the Marvel range), offering hands-free connection to all types of smartphones, a rechargeable Lithium-Ion battery and significantly improved sound quality. As a result, the company quickly regained the market shares it had lost. In order to maintain its positioning in the face of competition, Sonova is further developing the Marvel range by launching the Paradise technology, which offers newly developed features: 1/ equipped with a new, more powerful PRISM chip, sound quality is improved again; 2/ thanks to motion sensors, the hearing aids can automatically steer the hearing aid microphones to focus on the direction of speech and maximise the voice signal; 3/ the Bluetooth connection is very stable and offers the possibility of pairing eight devices and making two active connections simultaneously.
- The acquisition of Sennheiser's consumer division (EUR 200mio) will enable the group to position itself on this market, constituting a future growth axis for the sector. The division specializes in headphones and hearing aids for private customers (wireless headphones, earphones) and benefits from an extensive online and retail network.
- These technological and strategic developments reinforce our confidence in the company's prospects, with continued growth in excess of the underlying market and the achievement of medium to long-term objectives of sales growth of between 6% and 9% (recently revised upwards from 5%-7% previously) and EBITA growth of between 7% and 11% on average per year.
- In 2022/23, the business will benefit from both solid organic growth (+6-9%) and the integration of the recent acquisitions, which will nevertheless have a dilutive effect on the margin. Sales are expected to grow by 17-21% and EBITA by 12-18% at constant exchange

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

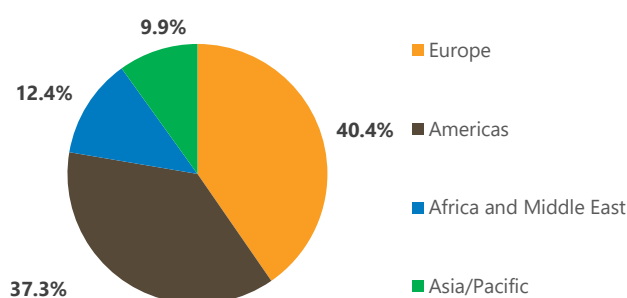
Current price 334
Value Bordier Scenario 378

Our scenario assumes Swiss 10-year yields rising to 1.75%; sales growth averaging 6-7% a year out to 2033; an EBITA margin rising towards 27% by 2027 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	2021	2022e	2023e	2024e	2025e
Sales revenue	2'602	3'364	4'037	4'320	4'622
Sales growth %	-10.8%	29.3%	20.0%	7.0%	7.0%
<i>a/w organic</i>	-6.8%	26.6%	7.0%	7.0%	7.0%
EBIT adjusted	603	844	993	1'089	1'192
% of sales	23.2%	25.1%	24.6%	25.2%	25.8%
Net income	538	717	807	898	987
Adjusted EPS	8.52	11.43	13.02	14.67	16.32
Adjusted EPS growth	6.0%	34.2%	13.9%	12.7%	11.3%
Capex/Sales	3.3%	3.1%	3.8%	3.8%	3.8%
Free cash-flow	678	836	776	930	1'020
FCF/Sales	26.0%	24.9%	19.2%	21.5%	22.1%
Dividend per share	3.2	4.4	5.2	5.9	6.5
Dividend yield	1.3%	1.3%	1.6%	1.8%	2.0%
ROCE - WACC	11.8%	13.8%	15.8%	18.4%	21.4%
ROE (%)	19.6%	29.7%	33.6%	36.9%	39.3%
Net debt/Ebitda	9.9%	103.8%	84.3%	69.0%	51.8%

Sales breakdown - 03/2022**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%).

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

-

Source: Factset, Bordier estimates

Ratios

		Stoxx Europe 600	
	Sonova Holding AG	Sector	Market
PE (x)***		Health Care	Stoxx 600
2021/22	29.2	20.1	15.4
2022/23e	25.6	18.4	13.1
2023/24e	22.7	16.7	12.4
P/B (x)***			
2021/22	8.7	3.8	2.0
2022/23e	8.8	3.5	1.8
2023/24e	8.7	3.2	1.7
Beta (2Y, daily) vs market:			1.10

***) 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.

Agenda

15 June 2022: AGM

14 Nov. 2022: Half-year results

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.

This document has been issued for information purposes and is exclusively supplied by Bordier & Cie SCmA in the framework of an existing contractual relationship with the recipient of this document. The views and opinions contained in it are those of Bordier & Cie SCmA. Its contents may not be reproduced or redistributed by unauthorized persons. The user will be held liable for any unauthorized reproduction or circulation of this document, which may give rise to legal proceedings. All the information contained in it is provided for information only and should in no way be taken as investment, legal or tax advice provided to third parties. Furthermore, it is emphasized that the provisions of our legal information page are fully applicable to this document and namely provisions concerning the restrictions arising from different national laws and regulations. Consequently, Bordier Bank does namely not provide any investment services or advice to "US persons" as defined by the Securities and Exchange Commission rules. Furthermore, the information on our website – including the present document – is by no mean directed to such persons or entities.