

Sonova Holding AG

CORE HOLDING*

Recommended since 24.11.23

24.11.2023



Country CH
 Sector Health Care
 Factset SOON-CH
 ISIN CH0012549785

Market capitalization (bn) CHF 14,4
 Free float 79,1%
 Closing price CHF 249,10
 ESG Risk score* 16,1 Low risk

Perf. since reco. (%)
 Sonova Holding AG 0,0
 Sector 0,0



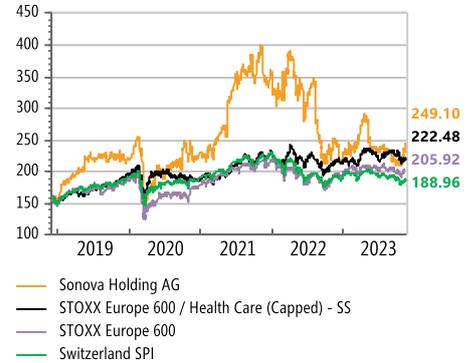
*From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely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

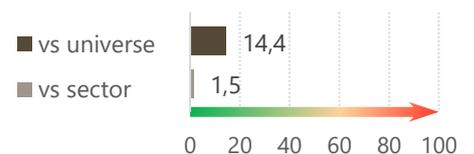
Investment case

- 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 2022-23 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.
- Nevertheless, the 1st half (published on 21/11) should mark the low point, with the annualization of the Costco impact and competitive launches, and an improvement in trend is expected from the 2nd half onwards. The outlook for 2024-2025 is much brighter, with the launch of a new platform scheduled for Oct-Nov 2024.
- The integration of Sennheiser's consumer business, which specializes in headphones, soundbars and hearables for private costumers (wireless headphones, earphones) and benefits from an extensive online and in-store network, enables the Group to position itself in this market, which represents an area of future growth for the sector. The collaboration between this new entity and Sonova's know-how has resulted in the launch of a hearing aid offer for the nascent OTC market in the USA.
- The medium to long term outlook has been confirmed and reflects these technological developments and strategic direction, with sales growth of 6-9% and EBITA growth of 7-11% on average per annum.

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 249
 Value Bordier Scenario 289

Our scenario assumes Swiss 10-year yields rising to 1.75%; sales growth averaging 6% a year out to 2033; an EBITA margin rising towards 25% by 2028 followed by stability over the rest of the period.

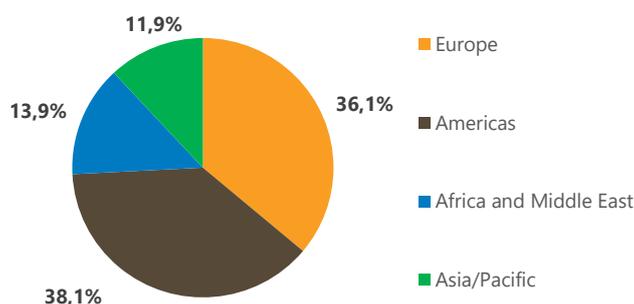
** The theoretical value reflects the company's business model, our baseline growth and profit scenario and market data, exogenous to the company (risk-free rate and equity risk premium). It does not in itself constitute a target price.

"Bordier Core Holding" indicators

In millions of CHF	2022	2023	2024e	2025e	2026e
Sales revenue	3 364	3 738	3 701	3 960	4 237
Sales growth %	29,3%	11,1%	-1,0%	7,0%	7,0%
a/w organic	26,6%	14,6%	4,0%	7,0%	7,0%
EBIT adjusted	844	840	814	903	996
% of sales	25,1%	22,5%	22,0%	22,8%	23,5%
Net income	670	671	652	735	818
Adjusted EPS	10,68	11,10	10,79	12,16	13,53
Adjusted EPS growth	25,4%	3,9%	-2,8%	12,6%	11,3%
Capex/Sales	3,1%	4,1%	3,8%	3,8%	3,8%
Free cash-flow	836	628	726	748	831
FCF/Sales	24,9%	16,8%	19,6%	18,9%	19,6%
Dividend per share	4,4	4,6	4,2	4,8	5,4
Dividend yield	1,1%	1,7%	1,7%	1,9%	2,2%
ROCE - WACC	13,2%	11,9%	10,4%	12,6%	15,0%
ROE (%)	27,8%	30,3%	25,7%	24,6%	23,6%
Net debt/Ebitda	103,8%	151,7%	105,0%	50,5%	1,3%

Source: Factset, Bordier estimates

Sales breakdown - 03/2023



Ratios

	Stoxx Europe 600		
	Sonova Holding AG	Sector	Market
PE (x)***		Health Care	Stoxx 600
2022/23	36,3	17,9	13,1
2023/24e	24,2	17,9	13,2
2024/25e	23,1	16,3	12,4
P/B (x)***			
2022/23	9,6	3,4	2,0
2023/24e	7,2	3,3	1,8
2024/25e	5,8	3,1	1,7
Beta (2Y, daily) vs market:			1,35

***) 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

14 May 2024: Full-Year Results 2023/24

11 June 2024: Annual General Meeting / 19 Nov. 2024: Half-year results 2024/25

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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