



Biotech Daily

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Daily news on ASX-listed biotechnology companies

Dr Boreham's Crucible: Nuheara

By **TIM BOREHAM**

ASX Code: NUH

Share price: 9.9 cents; **Shares on issue:** 828,315,828; **Market cap:** \$82.0 million

Interim chairman and chief executive officer: Justin Miller

Board: Justin Miller, David Cannington (executive director), Dr Michael Ottaviano, Kathryn Foster

Financials (December half): inaugural revenue \$1.96 million, interest income \$45,558, loss \$4.27 million (previous \$1.7 million loss), cash \$5.64 million * (previously \$4.2 million).

* Received R&D Tax Incentive of \$1.2 million in April

Identifiable shareholders: Wasagi Corp (Justin Miller) (7.91%), David Cannington (7.91%), Inkling Capital (Dr Mike Ottaviano) 3.1%

Watch out Cochlear! Here's an emerging company with world-leading hearing assistance technology, albeit for the moderately hearing challenged rather than the stone motherless deaf.

A player in the "augmented hearing" market, the Perth-based Nuheara has managed to get its Iqbuds on the shelves of 1,500 retailers globally since it launched the product in January last year.

Iqbuds are a Bluetooth-linked device to enable users to listen to music and answer phone calls, with a noise cancelling capacity as well.

Things get more interesting with Nuheara's second device, Iqbuds Boost, which are pitched as a hearing assistance device for people suffering mild hearing loss.

We're not talking about 95-year old Great Aunt Gladys with an ineffectual ear trumpet: about 75 percent of the populace are hearing impaired in some way, with the rot setting in at the ripe young age of 35.

From Silicon Valley to the ASX

Nuheara was co-founded by Silicon Valley entrepreneurs Justin Miller and David Cannington.

But they are no pony-tailed chancers: Miller founded and led the industrial and communication company Sensear Pty Ltd.

He also founded the ASX-listed cloud services provider Empired.

Cannington also worked for Sensear and has had marketing roles at Cadbury Schweppes, McCann Erickson and Exchange (data analytics).

The company is also backed by director Dr Mike Ottaviano, who leads the renewable energy play Carnegie Clean Energy.

Nuheara listed via the shell of Wild Acre in 2016, accompanied by a \$3.5 million raising at 2.5 cents apiece.

After attracting \$1 million of orders via the crowd-funding platform Indiegogo, the company began shipping Iqbuds in January 2017.

In February, the three-bloke board was supplemented with Kathryn Foster, a former Microsoft and Amazon exec who played a key role in building a distribution base for Xbox.

Hear! Hear! An affordable alternative to hearing aids

With a recommended retail price of \$649 per pair, Iqbud Boosts are marketed as an affordable alternative to hearing aids which can cost from \$6,000 to \$12,000 and require an audiologist to fit them.

As a result, most folk with mild hearing loss will settle for a cheaper four-word cure: "can you speak up?!!"

Or else they're too vain to wear a hearing aid and risk getting placed on the outer table at weddings with Great Aunt Gladys.

Hearing gongs

The Iqbuds have won seven innovation gongs. Last year the consumer tech media company Mashable rated the buds the eighth best technical innovation of 2017, ahead of gizmos such as the Samsung Galaxy Note 8, Google Pixel 2 and Apple Watch 3.

But you can't eat prestige.

Investors were more excited by the March announcement that Iqbuds Boost would qualify for inclusion under the Federal Government's \$500 million Hearing Services Program (HSP).

The HSP subsidizes hearing assistance devices for pensioners and certain other concession card holders.

Investors were not deaf to the benefits, pushing the stock up from 5 cents to 14 cents on the day.

In the US, the Over-The-Counter Hearing Aid Act passed Congress last year. This fiat requires the Food and Drug Administration to approve a new category for mild to moderate hearing loss and – voila! – that includes Iqbud Boosts.

The upshot is that patients don't have to go to an audiologist to obtain a lower end device.

And did the Audiologists Union like that? Not one bit.

We hear the future

Nuheara plans a third entry-level, a \$249 bud called LiveIq that still contains the basic features of its more expensive cousins.

At last count Nuheara had moved 20,000 Iqbuds, generating \$4.5 million of sales since last year's launch.

The devices are stocked at 1,500 brick-and-mortar outlets globally, as well as Amazon

Along the way, the company noticed that the Iqbuds were being used widely for the hearing augmentation aspect, rather than a nice way of listening to music.

Hence the evolution of Iqbuds Boost which incorporates a hearing test and automatically tunes the user's hearing profile.

The company this week said it had started shipping the buds from its Chinese supplier.

While much cheaper than hearing aids, the Boosts are also considerably more expensive than the \$399 Iqbuds.

Mr Miller says the Iqbuds Boost fit neatly into the 'general wellness' (health) category, which is "the new black in retailing".

So rather than being sold alongside a pair of Sennheiser headphones, the buds are more likely to be sold alongside Fitbits or a tin of probiotics.

Avoiding the tech money trap

Mr Miller says management is wary of falling into the tech start-up trap of aiming too high and burning cash too quickly.

The worrywarts at auditor Walker Wayland warn that Nuheara's status as a going concern depends on continued sales, the release of new products and controlling discretionary expenditure.

(Auditor, by the way, means "a listener" in Latin.)

The company recorded a December quarter cash burn of \$2.28 million on revenue of \$849,000, with a \$5.6 million end-of-quarter cash balance.

Nuheara hasn't been coy about passing the hat around in its short-listed life, having rustled up \$20 million to date. And the company banked a \$1.2 million Federal Tax Research and Development Incentive this month.

"With our cash and good inventory levels and sales continuing we are okay for the time being," Justin Miller says.

Nuheara is due to update investors on its sales at its August full-year results.

"It's very early days for us, so predicting sales is a risky proposition," Mr Miller says.

But given the uptick in the store coverage from 40 stores (as of July 2017) to 1,500, sales should be well north of the current number.

Dr Boreham's diagnosis:

Like being hard of hearing, the hearing market is hard.

On recent global experience, Nuheara will need to harness all its Silicon Valley smarts so as not to fall on its ear.

In August last year, a crowd-funded US mob called Kanoa foundered without selling one of its wireless headphones. The final straw was a savage Youtube clip in which the reviewer alleged the company tried to bribe him for positive coverage.

(Your columnist has never experienced this shocking practice, but is open to realistic offers.)

In November, Doppler Labs shut up shop, despite spending more than \$US50 million on developing its Here One 'augmented reality' ear buds.

"Six hearing aid companies have 90 percent of the business and the ears are a hard thing to get right," Mr Miller says.

"The hearables market is still in its infancy with players still muscling for position.

"Accordingly, all players must scale as the market scales. Too fast [and] you crash and burn too slow and you miss out," Mr Miller says.

Quite.

Despite these commercialization challenges, we are not deaf to Nuheara's appeal.

The Cochlears and hearing aid moguls of the world can rest easy for the time being, but they should hear the lqbuds coming if Nuheara gains traction.

Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort. What did you say??