



Biotech Daily

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Daily news on ASX-listed biotechnology companies

Dr Boreham's Crucible: Audeara

By TIM BOREHAM

ASX code: AUA

Share price: 14.5 cents; **Market cap:** \$15.2 million

Shares on issue: 105,000,000 (40.8m in escrow for 48 months)

Chief executive officer: Dr James Fielding (co-founder)

Board: David Trimboli (chairman), Dr Fielding, Pasquale Rombola

Financials: (December half 2020): revenue \$526,369 (up 13.5%), net cash used in operating activities \$184,308 (previously a \$3,557 surplus), net loss after tax \$283,019 (previously a \$461,396 loss)

Identifiable major holders: Audeara Investments Pty Ltd (Mr Trimboli) 14.5%, JDB Services Pty Ltd (JD Brice Investment Account) 11.8%, CJ New Ventures (Jeffery Family) 9.2%, James Fielding Family 7.8%, Alex John Afflick 4.7%, Uniquist 2.8%

The core proposition of the freshly-listed assisted hearing group is that it's a struggle to convince people to get a hearing test, let alone persuade them to do something about their aural deficiencies.

According to Audeara CEO Dr James Fielding, it takes an average seven years between diagnosis of a hearing problem and remedial action.

"Only 10 percent of people who should be doing something about their hearing do anything about it," he says, adding that a wife typically will drag her hubby to the clinic when he can't hear the grandkids any more.

But what if the solution is much more appealing than a hearing aid or even an old-fashioned ear trumpet?

Audeara has devised headphones that improve hearing in contexts such as listening to music, Zoom calls and talking on a scratchy mobile phone.

This is achieved through a hearing profiling algorithm that tailors sound output based on the user's unique hearing profile.

While the company started out by marketing its A-O1 headphones directly to consumers via Amazon, it sells mainly through audiologists.

"Our foundation is that every person hears differently," Dr Fielding says. "Every person's left ear is different to their right ear."

He says there's an "eyes wide open moment" - or surely ears wide open moment - when people realise the extent of their hearing loss. "Even if there are only small changes you will get a great outcome," he says.

'Ears to Brizzie innovation

A business and medicine graduate "with an interest in fixing the health system and love of music", Dr Fielding devised the technology along with fellow Queensland students Chris Jeffery and Alex Afflick (now the company's chief technology officer).

While doing his training, Dr Jeffery was frustrated at how long it was taking to carry out hearing tests.

"We said surely we can build something that could do the job better. So confidently - and naively - we resolved to design and manufacture a device."

From their "mucking about with prototypes" in 2015, an algorithm-based product was born to assay hearing loss more effectively. It then dawned on the trio that they could incorporate the software into a custom-built headphone.

"Part of our secret sauce is the tech in the headphones," Dr Fielding says. "Most [audiometers] need a computer, cables and headphones."

"We put the tech inside the headphones, which means you get the same quality hearing profile from a \$20 burner 'phone from the petrol station as from a \$20,000 audiometer."

In the testing process, the user dons the headphones and via beeps the volume is turned down to the hearing threshold.

"We map that across different frequencies and then we apply the secret sauce," Dr Fielding says. "We will make it sound amazing and as it should be."

The role of clinics

While Audeara's headphones are available through the usual online retail channels, the company's main customers are audiology clinics and Hearing Australia (the biggest provider of government-subsidized services).

"We prefer clinics to direct-to-consumer, because it's simpler," Dr Fielding says. "With direct-to-consumer you have to educate people that they may have a hearing loss, encourage them to do something and convince them you are the solution."

Most hearing customers are deaf to the reality that the worldwide audiology industry is dominated by five groups which account for 90 percent of the market.

The Milan-based Amplifon has 5,700 centres in 29 countries, including more than 300 of Australia's 1,580 clinics. The Denmark-based Demant Group trades as 160 different entities. Having said that, the on-the-ground clinicians are usually empowered to stock products as they see fit.

Audeara's via-the-clinic approach means the headphones are subsidized by parties including the Department of Veterans Affairs, the Federal Hearing Services Program and the National Disability Insurance Scheme. So far, the company has sold 12,000 units, which retail for \$349 (plus \$150 for a transceiver if you want to watch the TV in glorious high fidelity).

Global markets beckon

Audeara recently struck a US distribution deal with the Colorado-based custom earpiece maker Westone, which has access to more than 16,000 audiologists across the land. Hearing loss is the most common military-induced disability in the US, affecting 2.7 million veterans.

"We're not going to go hell-for-leather," Dr Fielding says. "We're not throwing millions of dollars [at the US market]; we're going to go through a staged process as we have here and we need to finish the job in Australia first."

In the UK, the company is pursuing "beachhead" deals to enable a better understanding of the market. Dr Fielding says the company is "laser focused" on Australian sales, with an eye (or ear) on China, where there are 1.4 billion people and (about) 2.8 billion ears.

Finances and performance

Audeara listed on May 18 this year, having rustled up \$7 million at 20 cents apiece.

The raising was over-subscribed and we would like to say that this investor zeal has perpetuated post listing. But the shares traded between 20.5 cents and 17 cents on debut and last changed hands at 13 cents.

“It would have been nice if it had popped but we know we just need to get to work,” says a philosophical Dr Fielding.

Post IPO, Drs Fielding and Jeffery and Mr Afflick retain a combined 21.7 percent stake. Mr Afflick is also the company’s chief technical officer.

The company’s chairman and seed investor, David Trimboli, remains the biggest shareholder with a 14.5 percent stake.

In private hands, the company chalked up revenue of \$526,000 in the December 2020 half-year, 13.5 percent higher than the previous. The company also lost \$283,000 compared with a very small surplus previously.

In a May 25 update, the company reported revenue of \$284,967 for the January to April period this year, with just over half derived from 712 local hearing clinics.

Sounds like Nuheara

Investors inevitably will compare Audeara with the ASX-listed Nuheara, which also markets assistive hearing products for people “not being serviced by traditional means”.

Nuheara’s earpieces, called Iqbuds, are sold via retail channels. With a market valuation of \$76 million, Nuheara generated invoiced revenue of \$2.3 million in the March quarter, with \$9.2 million for the first nine months of the financial year (440 percent higher).

If the pair is in bitter rivalry, it doesn’t exactly show.

“We don’t operate in the same industry directly but in the same broader world,” Dr Fielding says. “We are both trying to help each other in the hearing health space and I think it’s amazing.

“They make a great product and they have helped a lot of people.”

What’s next?

Audeara likes to be seen as a platform company rather than a headphone provider, which means its secret-sauce software can be used in other products, or as an adjunct to the established hearing tests.

Gaming (video games, not wagering) is an interesting potential market.

“We dipped our toe in the market to see the response and it’s amazing,” he says. “The industry isn’t about spotty nerds sitting in dungeons but professional ‘athletes’ winning millions of dollars.”

He adds the industry is also tightly held, so the company would need the right partner.

Meanwhile an updated model - predictably dubbed AO2 - will address some issues around dexterity and the fit and feel of the headphones.

A key point is that, strictly speaking, the headphones are not medical devices, as they are not approved by any medical gatekeepers.

Pursuing such approval could widen the scope of using the platform in areas such as diagnostic testing.

"It something we're looking at in future, but it would be for a different product skew," Dr Fielding says. "It then becomes more about testing and less about the experience."

Dr Boreham's diagnosis:

Most device companies proclaim that they don't have any true competition, but that's rarely the case. In reality, they just have to be better or cheaper than their rivals.

Apart from the 'competition' of so many hard-of-hearing folk being in denial, Audeara's presence in the clinics is challenged by the likes of German audio heavyweight Sennheiser, which also has a range of hearing-assist headphones.

"There are rival products out there," Dr Fielding says. "We just do it far better than they do and that is where the art meets the science."

As always, building sales to decent levels will be hard slog. But loud applause to the backers of Audeara for progressing what was an undergraduate brain fart five years ago to a bona fide business.

Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort. He does possess two ears but sorry, you will have to speak up anyway.