



Biotech Daily

Friday July 12, 2019

Daily news on ASX-listed biotechnology companies

Dr Boreham's Crucible: Nuheara

By TIM BOREHAM

ASX Code: NUH

Share price: 5.4 cents

Shares on issue: 1,062,210,292

Market cap: \$57.4 million

Interim chairman and chief executive officer: Justin Miller

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

Financials (March quarter 2019): receipts of \$641,000 (down 11.5%), cash burn \$1.57 million, cash balance \$5.68 million*, estimated June quarter outflows \$4.75 million

* In early July 2019 the company raised \$5 million in a placement

Major shareholders: Farjoy Pty Ltd (Tim Robertson) 10.2%, David Cannington 6.4%, Wasagi Corp (Justin Miller) 6.4%, Jamore Pty Ltd (Danshe super fund), 5.5% Fiago Pty Ltd 2.2%.

The acid test of a company's progress and prospects is when it enters the crosshairs of a potential acquirer, which is exactly what's happened with the 'hearables' device developer.

On June 25, Nuheara disclosed in a broader update that it had received an indicative approach from an unnamed putative bidder, but proffered no details.

But by the time these revelations were aired, the bidder had left the building, because it did not want its name and bid price disclosed in a cleansing notice for a forthcoming capital raising.

After prompting from a media report and then the ASX, Nuheara revealed that the bidder was Harman International Industries, an arm of the electronics giant Samsung.

The letter of intent proposed “up to” 8.4 cents a share, valuing the company at \$82.5 million.

Nuheara argued that it needed to be coy, due to the need for confidential soundings with potential investors ahead of the \$4 million placement, revealed on July 3.

Unfazed, co-founder and CEO Justin Miller says the company will pursue other existing partnering and structuring opportunities, including chats with original equipment manufacturers.

“Our tech is still the same, our products are still the same and we will actively work on other opportunities,” he says. “At the end of the day we are chasing a very large market that is underserved and undervalued.”

From Old-heara to Nuheara

Co-founded by Silicon Valley entrepreneurs Mr Miller and David Cannington, Nuheara back-door listed in March 2016 and raised \$3.5 million at 2.5 cents apiece, using the shell of Wild Acre Metals.

Nuheara is ‘same but different’ to when it launched its first ear-bud listening device, the lqbud, in January 2017 (having crowd sourced \$1 million of orders).

Inserted in one’s shell-likes, the circa \$240 lqbuds allowed users to augment their hearing according to personal preferences and connect hands-free to voice-enabled devices.

So far Nuheara has sold 35,000 units but it's now focused on higher priced devices for hearing assistance.

“We are consciously moving up the tree,” he says. “We are going to higher-priced sophisticated devices that are still far cheaper than traditional hearing aids.”

The company is also steering away from an off-the-peg retail presence to sales formats that help customers assess their hearing easily and quickly. This includes online tests, as well as person-to-person help in outlets such as Specsavers (see below).

This strategy ‘pivot’ includes discontinuing development of an entry-level device, Liveiq:

“We could have sold thousands of them but it would have been borderline in terms of making money from them,” Mr Miller says.

He notes that low-level hearing loss - which becomes evident after the age of 50 - accounts for 75 percent of the overall hearing loss market.

The average age of a Nuheara customer is 54, compared to an average hearing aid user who waits until the ripe old age of 72 to wear (or in many cases buy, but still not wear) a hearing aid.

“It’s like saying I’m going to go completely blind before I get a pair of glasses,” Mr Miller says. “We are getting hearing to customers before accessibility and affordability become key issues.”

Product evolution

While Nuheara’s next-generation devices generate a better margin, they’re still a fraction of the cost of hearing aids that cost \$10,000 or more - and have to be installed by audiologists.

The original Iqbuds were superseded by Iqbud Boost, which positioned the company definitively in the hearing market.

The company is now developing the Iqbuds Max, in essence a better mousetrap with three times the microphone capacity and five times the processing power than the Boosts.

Nuheara has also launched Iqstream TV, an add-on device to enable television viewers to adjust the volume to their desired level, along with the ambient sound, meaning that you can watch a program at your comfortable volume and still hear your partner and children. Or not.

The company reports “significant take-up” from existing Iqbud Boost customers, with many users of the original Iqbuds upgrading to an Iqstream/Boost package.

Iqbud Max is in pre-production stage and is expected to enter mass production in the current quarter.

Nuheara has a contract with the Australian government’s \$500 million Hearing Services Program, which has been extended to June 30, 2020. The program subsidizes hearing assistance devices for pensioners and concession card holders.

But the take-up of Iqbuds achieved only limited success through the scheme, so the company is working with the Program to sell the Iqbud Boosts and Iqstream TV as a bundle.

Nuheara is also targeting independent audiologists - those not owned by the five major hearing aid companies - to support the bundled offering.

A pair of Iqbuds Boost sells for a recommended \$649, compared to about \$240 for the Iqbuds. The Maxes are likely to sell for \$750 or more. Iqstream TV, which must be used with a Boost or a Max, costs a further \$149.

Not deaf to the global potential

So far Nuheara's sales have been split evenly between the Asia Pacific (mainly Australia and New Zealand), Europe and the US with an overall 50-50 split between online and physical sales.

Unlike here or in the US, European optometrists are adopting a hybrid model of optometry and audiology services. As a customer, you might as well attend two fading senses in the one visit.

Nuheara already has a tie-up with Specsavers, which is trialling the concept in England, Scotland and Ireland.

"We have been working closely with Specsavers on how to best research that consumer," says Mr Miller, adding the company is talking with four to five other European optical chains.

"But no-one works as fast as we would like them to, and it's a little frustrating."

In the US, Nuheara sells through the electrical chain Best Buys.

Meanwhile, Nuheara's distributor Puretone won a contract to supply and support Iqbuds Boost to Scotland's arm of the National Health Service "one of the few government health agencies to recognize hearables products rather than hearing aids".

The contract is for a 36-month term, with two 12-month options at the behest of the NHS.

Finances and performance

The truth be told - and hopefully that's always the case with this column - Nuheara's sales have gone backwards: receipts of \$641,000 in the March quarter, 11.5 percent lower.

In the December half, the company reported official revenue of \$1.49 million, down 28 percent with Iqbuds Boost accounting for almost three quarters of sales.

Despite the sales downturn, the company increased its average selling price from \$181 per unit to \$337.

Mr Miller argues the sluggish slowing reflects the company's shift to the hearing category, which resulted in lower sales in the short term.

"Our work with retailers is starting to pay dividends," he says. "We are creating a category with huge potential."

Miller says the company has spent \$30 million to date, with \$22 million spent on development and manufacturing and only \$6 million in sales marketing. Spending on the latter is likely to increase as the company seeks to build awareness.

The company held \$5.68 million of cash at the end of the quarter after burning \$1.57 million, supplemented by this month's \$4 million raising.

In December last year, the company also raised \$5 million in a placement, at 7.5 cents apiece.

Nuheara's market performance hasn't been anything to shout about in the last 12 months, with the shares declining from 9.6 cents in early July 2018 to a low of 5.5 cents on July 2, 2019.

Dr Boreham's diagnosis:

Given suitor Harman walked away because of the disclosure problem and not because it uncovered anything nasty during diligence, a second approach cannot be ruled out.

But if management's expectation of 'hockey stick' revenue growth from new retail partnerships comes to fruition, the company's 4,000 shareholders may wish that it's not taken over too soon.

Nuheara's biggest investor, Farjoy Pty Ltd, has been a supporter from the outset and raised its holding from 7.9 percent to 10.2 percent in this month's raising.

Farjoy, by the way is the investment vehicle of Tim Robertson, QC, whose brother Geoffrey is also a noted legal eagle – and we're not being Hypothetical.

The company's imperative is to build meaningful revenue before competitors in the busy hearables and wearables space catch up.

Mr Miller says the company is still building what, in effect, is a new category, which means tweaking what works and what doesn't at retail level.

"It's been challenging on a number of fronts," he says. "But we only built our first prototype three years ago, so we have done a lot in a short space of time."

We expect Nuheara's shares to move in the right direction when the whisper of revenue growth becomes a clearly audible stampede of orders.

Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort. He awaits a cure for those even more common afflictions of tin ear and selective hearing.