



Biotech Daily

Friday July 12, 2019

Daily news on ASX-listed biotechnology companies

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MARKET REPORT

The Australian stock market fell 0.29 percent on Friday July 12, 2019, with the ASX200 down 19.6 points to 6,696.5 points. Fourteen of the Biotech Daily Top 40 stocks were up, 15 fell, seven traded unchanged and four were untraded.

Osprey was the best, up 1.1 cents or 17.7 percent to 7.3 cents with 1.1 million shares traded.

Cynata climbed 10.5 percent; Patrys rose 9.5 percent; Telix improved 8.8 percent; Imugene was up 6.7 percent; Antisense and Paradigm were up more than four percent; Neuren and Pro Medicus rose more than two percent; with Cochlear, Ellex, Genetic Signatures, Medical Developments, Nanosonics and Starpharma up by less than one percent.

Actinogen led the falls, down 0.1 cents or 9.1 percent to one cent, with 905,197 shares traded.

Clinuvel and Dimerix lost more than eight percent; Resonance fell 4.55 percent; Benitec, Impedimed, LBT and Opthea were down more than three percent; Orthocell and Universal Biosensors shed more than two percent; Avita, Compumedics, Kazia and Mesoblast were down more than one percent; with CSL, Polynovo and Resmed down by less than one percent.

[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, 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 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 underserviced 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 Iqbud, in January 2017 (having crowd sourced \$1 million of orders).

Inserted in one's shell-like, the circa \$240 Iqbuds 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 the box at a 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.

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 several 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.

OSPREY MEDICAL

Osprey says it welcomes US President Donald Trump's Executive Order "transforming kidney care for more than 37 million Americans with some form of kidney disease".

Yesterday, Dimerix announced that Mr Trump had signed the order, and the White House media release is available at: <https://bit.ly/2Jsr7lm> (BD: Jul 11, 2019).

Today, Osprey said that the initiative sought to prevent kidney failure through better diagnosis, treatment and preventative care.

The company said that under the Executive Order, the US Government-funded Medicare, for people over the age of 65, would "test adjusting payment incentives to encourage preventative kidney care and the use of home dialysis and kidney transplants".

Osprey chief executive officer Mike McCormick said the Executive Order was "expected to greatly enhance the education and awareness of kidney disease, particularly around preventative strategies".

"In the United States, there are over 800,000 coronary angiograms performed each year, with approximately 25 percent of patients undergoing these procedures also having chronic kidney disease and who are at risk of contrast-induced acute kidney injury," Mr McCormick said.

"There is growing evidence that contrast reduction with the [Osprey] Dyevert platform, as part of a protocol driven approach including screening and hydration, can reduce [contrast-induced acute kidney injury] rates ranging from 25 percent to 75 percent," Mr McCormick said.

"The Executive Order includes the kidney care first and comprehensive kidney care contracting models that will test new Medicare payment options aimed at improving the quality of care for patients with kidney disease," Mr McCormick said.

"Coronary angiogram patients who develop [contrast-induced acute kidney injury] are hospitalized longer and have significantly higher mortality rates," Mr McCormick said.

"We believe Osprey is well positioned to capitalize on kidney disease prevention given Dyevert is the only [US Food and Drug Administration] cleared device for reduction in dye use during coronary angiograms," Mr McCormick said.

Osprey climbed 1.1 cents or 17.7 percent to 7.3 cents with 1.1 million shares traded.

NUHEARA

Nuheara says retail partner Best Buy will open 10 Nuheara "hearing kiosks" in its Canada shops from July 26, 2019.

Nuheara said the retail collaboration was "the first of its kind in North America" with Best Buy hosting the kiosks in its shops, including Iqbuds Boost and Iqstream TV hardware displays, videos and live product demonstrations, as well as the Iqconnect point-of-sale hearing assessment.

The company said that the kiosks would have "dedicated co-branded employees" who had training in the Nuheara consultative sales process.

Nuheara chief executive officer Justin Miller said the retail initiative was "following our global mandate to bring hearing healthcare to main street and more importantly, placing the hearing health decision-making directly into the hands of consumers".

"It is now time for hearing to follow the growing trend of healthcare, which has shifted dramatically to patient self-care and empowerment," Mr Miller said.

Nuheara fell 0.4 cents or 6.9 percent to 5.4 cents with 15.3 million shares traded.

MESOBLAST

Prudential PLC says with its subsidiaries it has increased its holding in Mesoblast from 54,497,775 shares (11.00%) to 58,179,045 shares (11.66%).

The London-based Prudential said that between May 20 and July 10, 2019 it bought the equivalent of 4,133,745 shares in American depository receipts and Australian shares for \$8,067,534 or \$1.95 a share.

According to Commsec data, Mesoblast traded in a range from \$1.33 to \$1.555 between May 20 and July 10, 2019

Mesoblast fell 2.5 cents or 1.6 percent to \$1.50.

PATRYS

Mason Stevens says it has become a substantial shareholder in Patrys with 66,254,192 shares or 6.18 percent.

The Sydney-based Mason Stevens said that on July 10, 2019 it bought 62,057,414 shares for \$1,463,162 or 2.36 cents a share.

Patrys was up 0.2 cents or 9.5 percent to 2.3 cents with 1.3 million shares traded.

FACTOR THERAPEUTICS

Pura Vida Energy NL says it has reduced its substantial shareholding in Factor from 149,183,121 shares (14.31%) to 109,104,742 shares (10.46%).

The Perth, Western Australia-based Pura Vida was one of the original board spill signatories and was reduced by ceasing its association with Freshero and Canadian Nickel Corp.

Factor was unchanged at 0.3 cents.

FACTOR THERAPEUTICS

Freshero and Canadian Nickel Corporation say they have ceased to be substantial shareholders in Factor by ceasing to be associates with each other and Pura Vida Energy.

GENETIC TECHNOLOGIES

Genetic Technologies says Phillip Hains and Justyn Stedwell will replace Paul Viney as chief financial officer and company secretary, respectively, from July 15, 2019.

Genetic Technologies said Mr Viney was appointed on December 27, 2018.

The company said Mr Hains was the founder of Melbourne's CFO Solution and had 20 years' experience working with ASX and Nasdaq listed companies.

Genetic Technologies said Mr Stedwell was a company secretary consultant and currently worked as company secretary for several ASX listed companies.

The company said that interim executive chairman Dr Paul Kasian would continue in his role until further notice.

Genetic Technologies was unchanged at 0.7 cents with 19.9 million shares traded.