



## Nuheara Ltd (NUH.ASX)

*Smart earbuds – not just novelty but solving problems now*

### Event:

- We initiate coverage on Nuheara Ltd (NUH).

### Investment Highlights:

- NUH is a wearable hearing technology company, its major product being IQbuds.** These are wireless earbuds possessing Bluetooth connectivity and offering hand-free calls, streaming of music, assisted listening, sound control, noise cancelling and ability to personalise a user's experience.
- We have compared IQbuds to key competitors, and believe its major point of differentiation is its ability to allow dynamic control of sound – both digital and physical – over a wide range,** as opposed to simple off or on noise cancellation. IQbuds also can elevate speech as an assisted listening device. We believe only Doppler Lab's yet to be shipped Here One may be comparable.
- We expect IQbuds customers to primarily fall into two segments.** First are consumers who want to connect with devices without wires or hands, and desire the compactness of earbuds, and there being less conspicuous and socially isolating than headphones. Second there are those which suffer some hearing loss, who may not yet be ready – or desire – a hearing aid but want a device that is more "cool" and can improve their listening, especially in noisy environments.
- Various sources forecast the hearables market to reach between US\$17b and US\$43b by 2020.** The majority of the market is still expected to be comprised of headphones and hearing aids, with earbuds accounting for only ca. US\$6b by that time. Strong CAGR is underpinned by the replacement of wired by wireless, hearing loss, and desire of hand free smart devices.
- Hearables not just novelty but solve real-time problems.** Pebble's and Fitbit's recent struggles highlight that as novelty diminished for some wearables, it has unmasked their shortcomings, notably lack of immediate gratification and reliance on data analytics. However hearables such as IQbuds enhance the sensory experience and solve problems (difficulty hearing) in real-time.
- IQbuds to ship by end 2016.** During 2016 NUH ran a pre-order campaign that generated over 4k pre-orders (>\$1M). The company selected world class Flexitronics as contract manufacturer and expects to start shipments end 2016. Hard launch will be at the Las Vegas CES in January 2017. NUH signed major US distributor Wynit for the US, whose client include Best Buy and Walmart.

### Earnings and Valuation:

- We forecast NUH to generate losses in FY17e and FY18e as it ramps up sales, and forecast maiden NPAT in FY19e of \$1.5M.**
- We value NUH at \$0.18/share by DCF** using 12% WACC, terminal growth rate 2.5%, long-term FY21e EBIT margin 15% and assuming ca. 2% penetration of the earbuds market. We assume earbud market itself to be 14% of total hearable market.

### Recommendation:

- We initiate on NUH with a Speculative Buy rating and price target of \$0.18/share based on our valuation.** Catalysts include first shipments; first sales; positive product reviews; and further distribution deals.

Recommendation	Speculative Buy
Previous	n/a
<b>12 mth Price Target</b>	<b>\$ 0.18</b>
Previous	n/a
<b>Share Price (A\$)</b>	<b>0.077</b>
ASX Code	NUH
52 week low - high (A\$)	0.03-0.115
Valuation \$/sh	\$0.18
Methodology	DCF <sub>12</sub>
Risk	Very High
<b>Capital structure</b>	
Shares on Issue (M)	636.9
<b>Market Cap (A\$m)</b>	<b>49.0</b>
Net Cash/(Debt) (A\$m)	6.5
<b>EV (A\$m)</b>	<b>42.5</b>
12mth Av Daily Volume ('000)	3,272

Y/e Jun Forecasts	2016a	2017e	2018e	2019e
Revenue A\$m	0.0	3.0	19.9	39.9
Revenue growth	nm	nm	567%	100%
<b>NPAT Adj. A\$m</b>	<b>-2.2</b>	<b>-1.5</b>	<b>-1.9</b>	<b>1.5</b>
<b>EPS Adj c</b>	<b>-0.68</b>	<b>-0.21</b>	<b>-0.25</b>	<b>0.19</b>

PER x	nm	nm	nm	nm
EV/sales	nm	nm	114	57

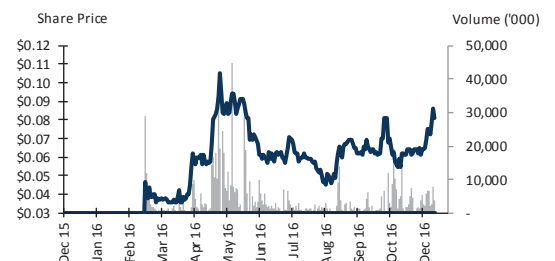
### Board

Justin Miller	Executive Chairman
David Cannington	Executive Director
Michael Ottaviano	Non-Executive Director

### Substantial shareholders

David Cannington	11%
Wasagi Corp (Justin Miller)	11%
SA Coupe Pty Ltd	6%

### Share Price Graph



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Foster Stockbroking is engaged in providing corporate services to NUH for which it may earn fees. Foster Stockbroking was Joint Lead Manager in the \$5.0M placement of 83.1M NUH shares at \$0.06 in September 2016. Foster Stockbroking received fees for this service.