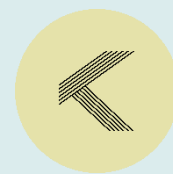


Audientes

Update: Q2'23



2023-09-15

Audientes reported a year-on-year increase in revenue, EBITDA, and profit. Revenue increased to 1,042 MDKK (0,987) in the quarter. EBITDA increased to -1,838 MDKK (-3,328), and profit after tax increased to -3,603 MDKK (-4,580) in the quarter. Cash flow from operating activities increased to -1,292 MDKK (-6,624), and cash and cash equivalents amounted to 1,682 MDKK by the end of Q2 compared to 0,774 MDKK by the end of Q1'23.

Leaving a turbulent period behind

Audientes has been navigating through a series of challenges, particularly in its efforts to establish a foothold in the Indian market. In 2022, the company initiated its market entry in India, focusing on the sale of its hearing aid, Ven. Despite creating a platform through collaborations with professional clinics, pharmacies, and NGOs, Audientes faced challenges which significantly impaired its liquidity. Moreover, a miscalculation in assessing the severity of hearing loss in the average Indian patient required a recalibration of the product. This led to a depletion of the funds raised from the 2022 rights issue.

New distribution strategy in India

To address the mistakes made in India, the company stopped working with most of its Indian distributors to focus solely on earKART. Audientes also launched a software update to make Ven work better for Indian patients suffering from severe hearing loss. Audientes now has a more focused approach for the Indian market which we believe is the right way forward. However, this will lead to a slower entry into the Indian market than we initially anticipated.

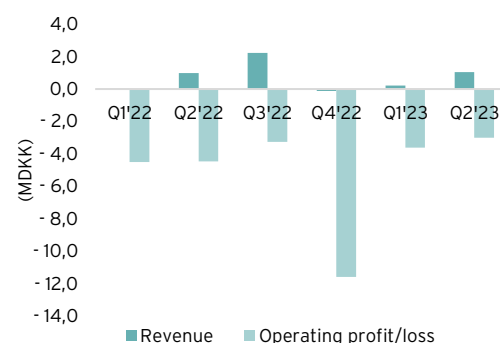
Strained balance sheet

Audientes' balance sheet is currently under pressure. In our view, the most urgent issue is to strengthen the balance sheet to ensure continued financing of the company's daily operations. Audientes must either start generating a positive free cash flow or secure additional funding to realize its expansion plans in India, China, and Nepal.

Facts

CEO	Steen Thygesen
Stock exchange	Spotlight
Ticker	AUDNTS
Share price (DKK)	0,47
NOSH (M)	39,2
Market cap (MDKK)	9,7
Net cash (MDKK)	4,6
EV (MSEK)	14,3
Next report	2023-11-09

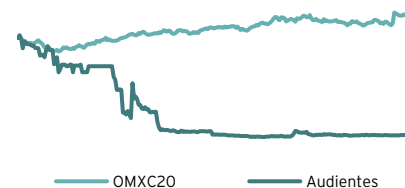
Quarterly performance



Analyst

Jakob Fritz
jakob.fritz@kalqvl.se

Stock price 12 months



Performance %	1 m	3 m	12m
Audientes	-3,9	-21,6	-95,6

Key Insights



Large addressable market

Hearing aids have great market potential due to the rising number of people experiencing hearing loss. WHO predicts 630 million people globally will suffer from disabling hearing loss by 2030, and 900 million 2050.



Innovative product

Audientes is offering affordable and accessible hearing aids of high quality. This approach eliminates the need for regular audiologist visits, making hearing care more accessible for individuals with lower income.



Commercialization

Audientes distributor earKART is ready to sell the product on the Indian market. Audientes' now has a solid distribution network spanning over many countries globally.

“We continue to evaluate a range of different alternatives to bring in the required financing in the short-medium term as well as exploring more longer-term structures.”

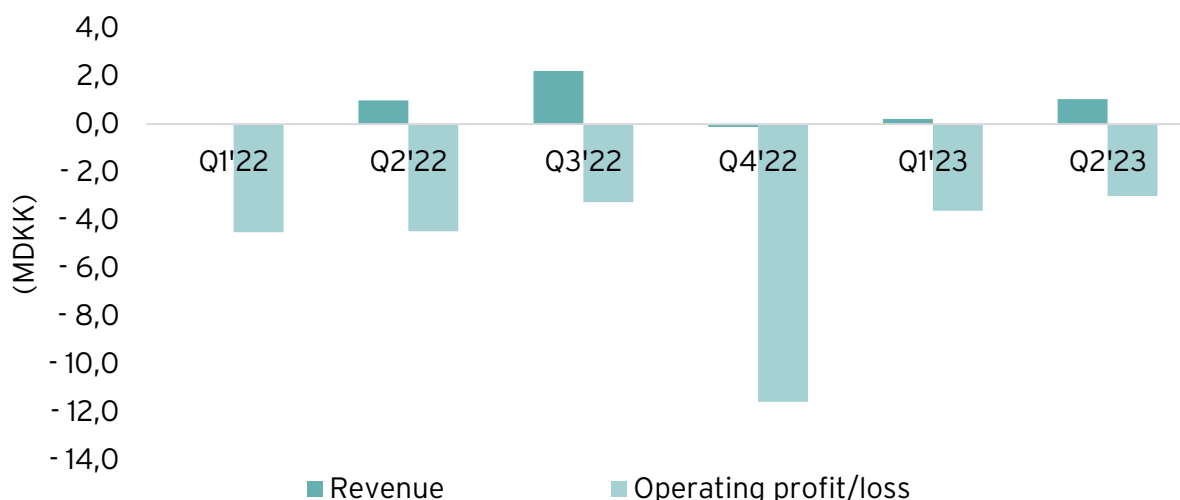
- CEO Steen Thygesen

Investment case

- Innovative product
- Large market opportunity with over 400+ million suffering from hearing loss globally
- Expansion on existing and new markets
- Founder led
- Clear value proposition and easy to understand

The quarter in numbers

In the second quarter of 2023, Audientes reported a revenue of 1,042 MDKK, a large portion of which was generated through sales to its new exclusive distributor in the Indian market, earKART. This is an increase compared to Q2'22, where the revenue amounted to 0,987 MDKK. However, it is important to note that a significant part of the revenue generated in Q2'22 was later reversed due to payment defaults from customers. Taking a broader look at the first half of 2023, the company had revenues of 1,253 MDKK compared to 1,008 MDKK recorded in the first half of 2022.



The operating loss for Q2 2023 was -2,998 MDKK, showing an improvement compared to Q2'22 which reported -4,471 MDKK. This improvement was primarily driven by lower development costs, including the completion of significant projects such as the software platform version 2.0 and savings and from organizational downsizing. However, this was partly offset by a lower gross profit on sales².

In our opinion, Audientes' financial performance is a mixed bag. On one hand, the company showed revenue growth and improved its operating profit, demonstrating positive sales momentum and cost reducing efforts. The reduction in negative cash flow is also a step in the right direction, indicating enhanced financial discipline. However, concerns persist. The revenue reversal issue highlights potential weaknesses in the company's credit and payment management processes. In our opinion, it also highlights the difficulty operating in developing markets far away.

Major events before the quarter

Troubles in India

In 2022, Audientes initiated its market entry in India, focusing on the sale of its self-fitting hearing aid, Ven. Despite establishing a solid platform through professional hearing aid clinics, pharmacies, and NGOs, the company faced challenges including extended credit periods by B2B customers. This led to Audientes not receiving the anticipated payments, significantly impairing the company's liquidity. Furthermore, it turned out that the average Indian consumers using Ven had more severe hearing loss than anticipated, and the company had to recalibrate the product³.

To fund its ongoing operations, Audientes secured 14 MDKK through a fully subscribed Rights Issue of Units in December 2022, which we discussed in our update for Q3'22. However, due to challenges encountered in the Indian market, in February 2022 the company announced it would require a significant influx of capital to achieve its strategic goals and reach a break-even point within the coming 2-3 years.

We are highly critical of the company's handling of the situation in India. Initially, it appears there was a lack of thorough due diligence concerning its Indian distributors before establishing partnerships. Moreover, it is concerning that the company failed to accurately assess the severity of hearing loss prevalent among the Indian patients, rendering the Ven product unsuitable for a large portion of this demographic. These oversights have not only subjected the company to financial strain but also led to the depletion of the funds amassed through the rights issue. Audientes has rectified some of these mistakes which we will discuss further down in the analysis.

Major events during the quarter

Software Enhancement (April 11, 2023)

To better cater to Indian patients experiencing severe hearing loss, Audientes has introduced a significant software update for its Ven and Companion products. This update amplifies the sound experience and broadens the fitting range. CEO Steen Thygesen emphasized the upgrade's potential to meet the needs of Indian users⁴.

While we recognize Audientes' initiative to adapt the Ven product to the Indian market, it raises concerns about why this vital part of the market strategy was overlooked in the first place.

Warrant Exercise and Funding (April 17, 2023)

Between March 27 and April 13, 2023, Audientes initiated the exercise of TO 1 series warrants, resulting in the subscription of about 70.5% of the available warrants, equating to approximately DKK 890,000 before transaction costs. The funds raised will be directed towards bolstering sales and marketing activities in India, the EU, and surrounding regions⁵.

This is significantly lower than the 9,3 MDKK the company had had hoped for, and we discussed this in more detail in our update for Q3'22. The reason for the lower-than-expected proceeds is because the share price has dropped, and the warrants gave investors the option to purchase additional shares in the company for seventy percent of the average volume-weighted price of the share during 12 days before the exercise period began.

Exclusive Distributor Agreement with earKART India (May 1, 2023)

Audientes entered into an exclusive distributor agreement with earKART India, committing to a minimum revenue of DKK 4.8m in the first year. earKART will be the sole distributor of Audientes' products in India, leveraging its extensive dealer network. The collaboration aims to foster exponential growth, with plans to expand into other South Asian markets in the coming years. Following this new distribution agreement, Audientes decided to withdraw distribution rights from existing customers and take back unpaid products previously reported as 2022 revenue. The products will be upgraded to the new Ven v2.0 software. This adjustment led to a reduction in the reported 2022 revenue by 3.0 MDKK, resulting in a revised revenue of 0.1 MDKK and an EBITDA of -14.0 MDKK. It is now up to Audientes to demonstrate that the recent adjustments are adequate, and that sales can start growing through earKART.

This is a response to the company's earlier failed attempt to enter the Indian market with several different distributors. We believe focusing on one reliable partner who knows the Indian market well is a better plan, and this will hopefully facilitate the expansion on the Indian market.

Partnership and Market entry into China and Nepal (June 22, 2023)

Audientes has entered into a distribution and sales agreement with Shenzhen Hengtong Partner Company Ltd. to introduce its products in China, starting with the Companion by Audientes. Hengtong will also acquire a minority stake in Audientes through a cash capital increase of approximately 1 MDKK. This collaboration aims to leverage Hengtong's distribution network to reach the large Chinese market, where over 28 million people suffer from disabling hearing loss. The CEO of Audientes highlighted the strategic importance of entering the Chinese market and expressed optimism about the partnership⁶. Furthermore, Audientes introduced Ven to the Nepalese market through a new distribution partner, M.B. Meditech, whom they onboarded and trained.

Bridge Loan Extension (August 32, 2023)

Audientes has negotiated an extension of its existing bridge loan, initially secured in Q1'22, to last until the end of September 2023, amounting to 5.77 MDKK. The company plans to further prolong the loan until September 2024 as a convertible loan with no interest and instalments during this period⁷.

Financial position

At the end of Q2'23, Audientes had 1,682 MDKK in cash and cash equivalents, compared to 3,680 MDKK at the end of Q2'22. After the end of the quarter, the company made a direct issue with its Chinese partner Hengtong Partner Company Ltd. of 1 MDKK before transaction costs. This makes cash and cash equivalents around 2,682 MDKK. Free cash flow in Q2'23 amounted to -1,734 MDKK. This means that the company has cash to fund operations for approximately one and a half more quarter given current burn rate before cash runs out.

In our view, the financial risk associated with the company's balance sheet has risen notably lately. To successfully execute its expansion strategies in India, China, and Nepal, Audientes must either start generating positive free cash flow or secure additional external financing. Regrettably, the possibility of raising capital through further rights issues seems implausible, given how the proceeds from the last rights issue was handled combined with a significantly depreciated share price.

While obtaining loans could be a possibility, the recent surge in interest rates coupled with Audientes' illiquid position makes this option less viable. A potential alternative might be to seek funding through partnerships, similar to the previous collaboration with Hengtong Partner Company Ltd., although this remains speculative at this stage.

Outlook

Audientes has been navigating through a series of challenges, particularly in its efforts to establish a foothold in the Indian market. In 2022, the firm initiated its market entry in India, focusing on the sale of Ven. Despite creating a platform through collaborations with professional clinics, pharmacies, and NGOs, Audientes faced challenges which significantly impaired its liquidity. Moreover, a miscalculation in assessing the severity of hearing loss in the average Indian consumer required a recalibration of the product. This led to a depletion of the funds raised from the 2022 rights issue.

To address the mistakes made in India, the company stopped working with many of its Indian distributors to focus solely on earKART. They also made a software update to make Ven work better for Indian patients suffering from more severe hearing loss. Audientes now has a more focused approach for the Indian market which we believe is the right strategy going forward.

Furthermore, Audientes has been working to expand its reach beyond India. In June 2023, it partnered with Shenzhen Hengtong Partner Company Ltd. to tap into the Chinese market, a move complemented by an entry into the Nepalese market through a collaboration with M.B. Meditech.

Audientes' balance sheet is currently under pressure. In our view, the most urgent issue is to improve the balance sheet to ensure continued financing of its daily operations. The company is in a race against time to either start generating a positive cash flow or secure additional funding to realize its expansion plans in India and the other markets. While the option of raising capital through additional rights issues seems limited, the company might explore partnerships like the one established with Hengtong for securing financing.

Valuation

Key stats

Outstanding shares	39,150,472	Market cap (MSEK)	9,7 MDKK
Share price	0,247 DKK	Net cash (MSEK)	4,6 MDKK
		Enterprise value (MSEK)	14,3 MDKK

R12

Net sales	3,4 MDKK	P/S	2,9
EBIT	-21,3 MDKK	EV/EBIT	neg
Profit	-22,9 MDKK	P/E	neg
FCF	-13,8 MDKK	P/FCF	neg

Source: Börndata

Historical average

	P/S	EV/EBIT	P/E	P/FCF
Average 3 years	4,3	neg	neg	neg
Average 5 years	4,3	neg	neg	neg

Source: Börndata

Key performance indicators (R12)

Gross margin	EBITDA margin	EBIT margin	Profit margin
-123 %	-343 %	-633 %	-682 %
FCF margin	ROA	ROIC	Net debt
-412 %	-114 %	-405 %	22,7 %

Source: Börndata

Estimates

Given the uncertainties regarding Audientes' balance sheet and its unpredictable future, we have chosen not to include any estimates or a valuation section in this analysis.

References

1. [Audientes Q4'22](#)
2. [Audientes Q2'23](#)
3. [MFN.se > Audientes > Information on strategic direction for the future capitalization of Audientes A/S](#)
4. [MFN.se > Audientes > Audientes makes the v2.0 power upgrade to its Ven™ hearing aid available](#)
5. [MFN.se > Audientes > Audientes announces outcome of the exercise of warrants of series TO 1](#)
6. [MFN.se > Audientes > Audientes A/S secures market entry in China and decides on DKK 1 million directed issue for strategic investment by Shenzhen Hengtong Partner Company Ltd.](#)
7. [MFN.se > Audientes > Audientes A/S prolongs bridge loan which, subject to authorization from the coming EGM, will be refinanced to a convertible loan, with no interest and instalments due for 12 months](#)

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Conflict of interest

Jakob Fritz do not own shares in the analyzed company
This analysis is commissioned