

NUHEARA

# Quarterly Report

For the quarter ended 30 September 2020

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# Highlights

**Nuheara Limited (ASX: NUH)(Company or Nuheara) has commenced FY21 strongly with invoiced sales revenue of $3.5m for the first quarter (Q1). This was driven by a solid recovery from COVID-19 related manufacturing delays experienced in the previous quarter with the shipment of 6,595 units (65% IQbuds² MAX, 35% Other), plus Phase I of an agreement with technology multinational HP Inc for the development of an ear bud variant by Nuheara that satisfies HP's own use case.**

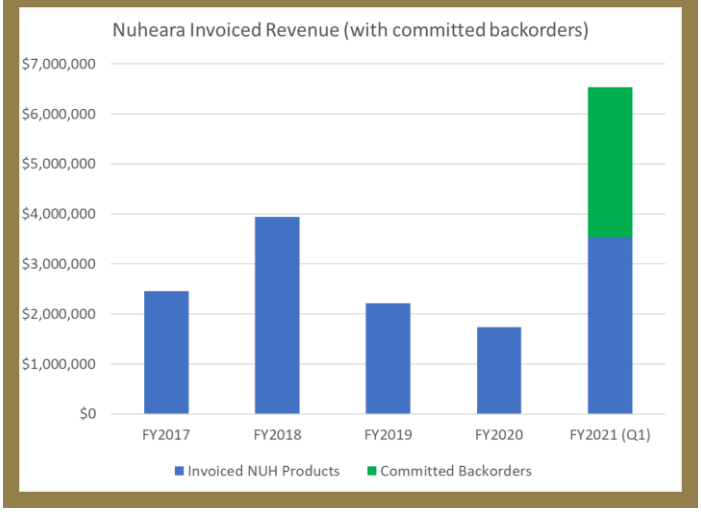
- **Invoiced quarterly revenue up 543% on same period last year**: FY21 Q1 total also exceeds total FY20-revenue by 103%.
- **Increased diversification of income streams:** Invoiced $1.8m in Product (Nuheara branded products) and $1.7m in Services (OEM/HP).
- **New orders of 2,111 units for the quarter**. Q1 is seasonally the smallest retail quarter of the year, plus reduced Direct To Consumer (DTC) marketing spend to focus on clearing backorders.
- **Increase in Average Sales Price (ASP) to $417 for IQbuds² MAX orders:** Sales momentum maintained with lower levels of discounting during the Quarter, resulting in increased margin.
- **DTC Return on Advertising Spend (ROAS) for the quarter was marginally down at 1.74x.** Expected to improve in Q2 as backorder diminished and shipping times reduce towards Ship On Order.
- **FY21 Q1 cash receipts were up 18% ($532K) on same period last year.** Reflects positive momentum in DTC despite lower marketing spend.
- **Strong orderbook entering Q2:** $1.05m IQbuds² MAX plus $2.0m Services[1] (HP OEM)

**Comments from Managing Director and CEO Justin Miller:**

"Nuheara has made a solid start to the new financial year with a great recovery from COVID-19 manufacturing delays that impacted the business in the previous financial year.

"We had a record quarter of product shipments with revenue that then exceeded our total invoiced product revenue for the entirety of FY20. This should be reflected in Q2 cash receipts.

"The strong sales performance was reinforced by the commencement of a HP Inc. collaboration that delivered on our commitment to drive revenue diversification through also building on Nuheara's service offering."




[1] Post Q1 - ASX Announcement 12 October 2020

*Released 19 October 2020*

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The quarter was characterised by the ongoing fulfillment of IQbuds² MAX pre-orders, continued growth in Direct to Consumer (DTC) sales, achievement of ISO 9001:2015 quality certification and establishment of a collaboration partnership with HP Inc.

**SALES AND REVENUE**

Nuheara delivered record sales in Q1 with total invoiced sales for the quarter exceeding $3.5m. The Company invoiced more product in the first quarter of FY21 than it did for the entire previous financial year (FY20 $1.7m).

Substantial growth was achieved across both strategic sales channels of Product (Hearing Healthcare) and Services (OEM). Invoiced Sales for Q1 comprised $1.83m in Product and $1.7m in Services, also reflecting greater diversification in sales.

Committed Product backorders at September 30 totalled $1m ($455k Direct to Consumer + $545K Online Retail Partners). HP also committed to Phase II Services work of $2m in early October.

Overall, the quarterly results have firmly delivered on Nuheara's long held strategy to drive sales across multiple sales fronts, within both Hearing Healthcare and OEM sales channels, delivering global scale to the Company's revenue base.

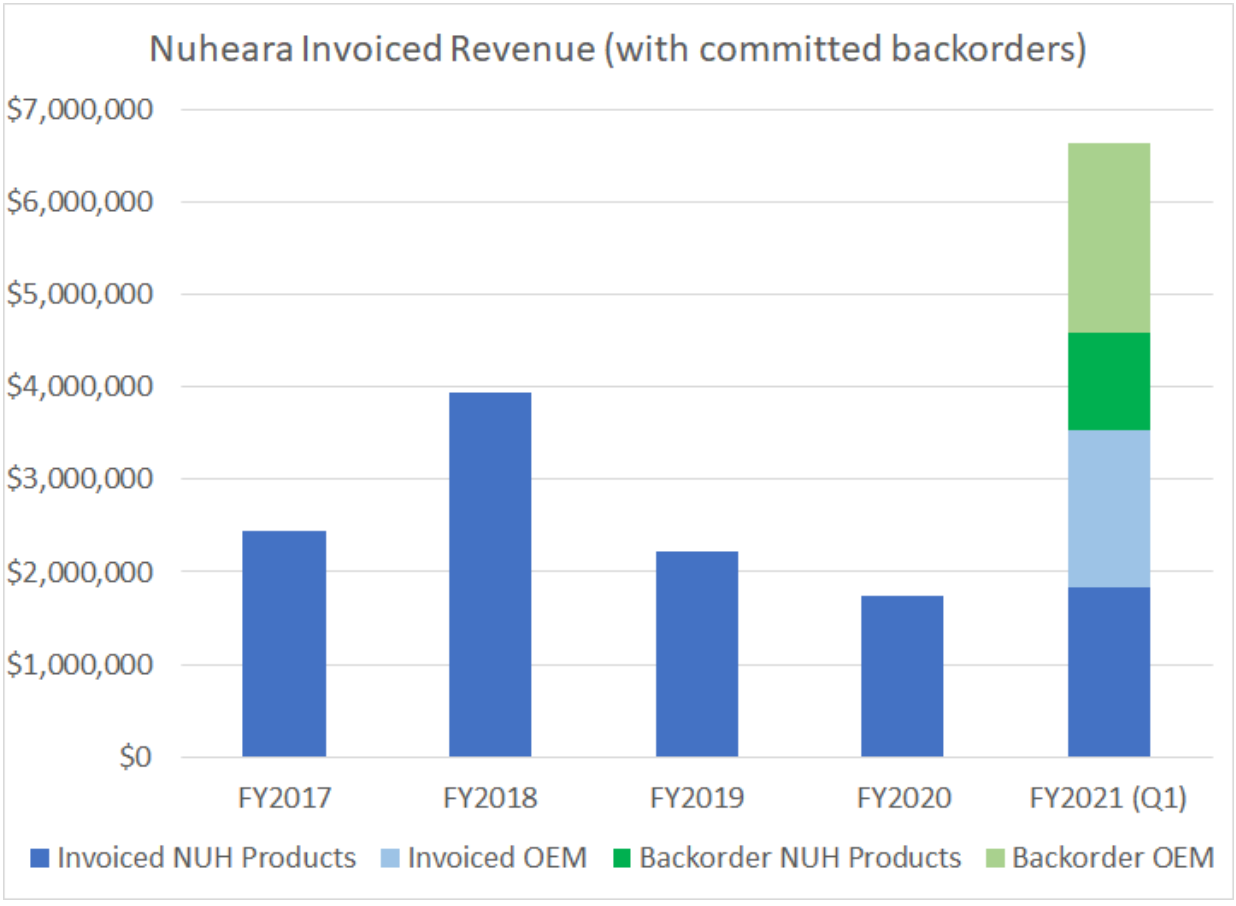



*Figure 1: Nuheara Invoiced Sales Revenue with current backorder*
*Note: Invoiced Revenue does NOT include government rebates and grants*

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## NUHEARA PARTNERS WITH HP INC

On 27 August 2020, the Company announced Phase I of its collaboration with HP Inc. The Scope of Work/Proof of Concept (SoW), valued at US$1.2m (AUD$1.7m) saw Nuheara develop software to support a proposed ear bud variation specific to HP's confidential use case.

Early in October 2020, the Company announced Phase II of the collaboration with HP Inc, valued at US$1.48m (AUD $2m) for works associated with the development of an ear bud variant specific to HP's confidential use case.

Payment from HP Inc for both phases is expected to be received in the next quarter.

Nuheara is looking forward to developing this strategic OEM partnership over the coming months.

## IQbuds² MAX SALES STRATEGY & PERFORMANCE

For what is seasonally the smallest retail sales quarter of the financial year, the current quarter remained positive with new orders of 2,111 units of IQbuds² MAX.

International sales now account for more than 85% all orders received.

DTC Return on Advertising Spend (ROAS) for the month of September improved back to above 2x with an overall ROAS of 1.74x for the quarter as a result of reduced marketing effort while focusing on clearing backorders. The normalisation of ROAS is a good sign leading into the next quarter, as backorders diminish, and product can be marketed to ship on order.

Ship on order will also allow sales expansion and supply to our valued traditional retail partners into Walgreens, Best Buy and Crutchfield, and the expected addition of new retail partners.

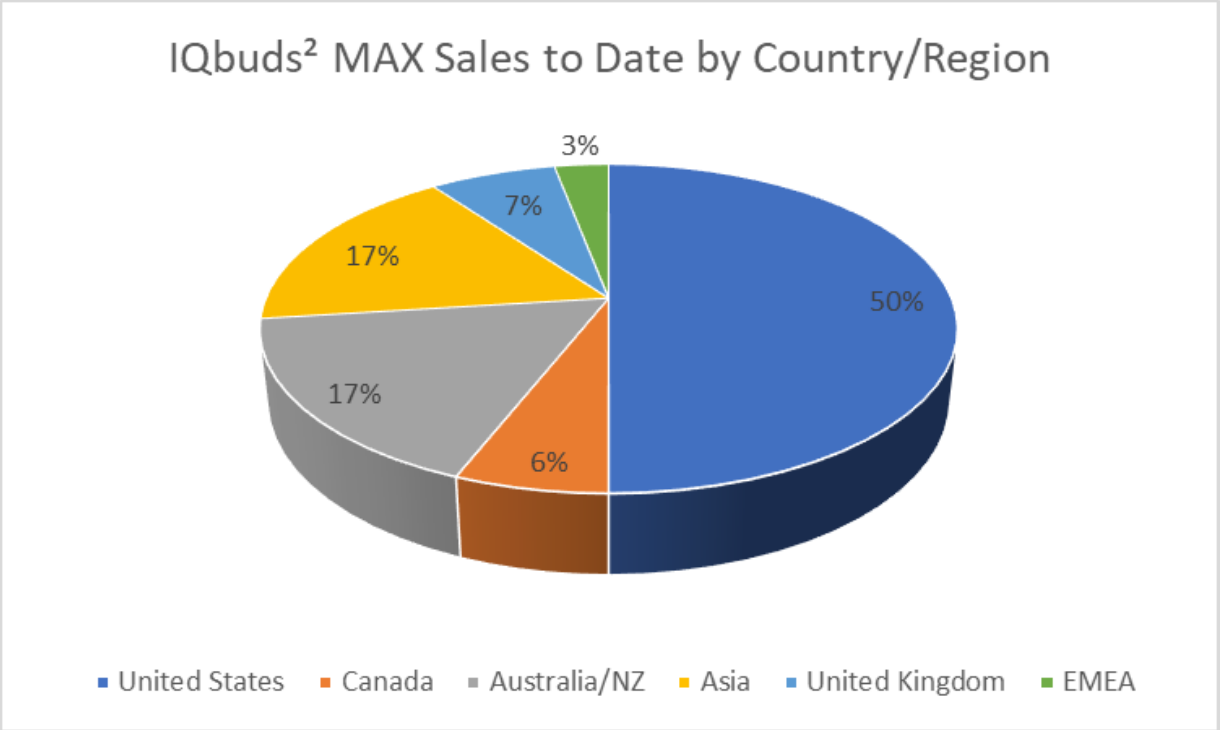



*Figure 2: Nuheara IQbuds² MAX sales by country of origin*

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## MANUFACTURING

The Company continued to make efficiency improvements on its Malaysian based manufacturing line during the quarter. COVID-19 travel restrictions have adversely impacted the technical team's ability to streamline manufacturing, as all changes and process improvements have had to be diagnosed and implemented remotely. Through new orders obtained during the quarter, the company continued to add to its backorder. It is now expected that all backorders will be fulfilled and stock on hand will be available in the first half of Q2.

## CASH RECEIPTS AND CASH POSITION

Q1 cash receipts were $532K, up 18% on the same period last year, and reflecting the positive impact of the DTC sales channel. The Company's cash position (September 30, 2020) of $1.5m cash on hand will improve considerably with the collection of $4m in receivables (representing invoiced sales) and a further $1m+ R&D tax off set payment during Q2. During Q1 the Company also paid $1.2m in advanced supplier payments for product that will be supplied beyond Q1.

## ISO 9001:2015 QUALITY CERTIFICATION

On 11 August 2020, the Company announced that it had been certified to the international standard for quality ISO 9001:2015. The certification covers Nuheara's Quality Management System (QMS) for the research and development, product design, engineering, support, and sales and marketing of smart hearing devices. The certification is highly relevant to operating in major global markets and alongside global companies. It provides context and validation to Nuheara's aspiration to be the world's leader in smart hearing solutions.

Additionally, it also supports the Company in advancing Original Equipment Manufacturer (OEM) discussions, including HP Inc (refer above), and placed Nuheara in a solid position to apply our products, technology and processes to any forthcoming regulatory requirements by the FDA for the Over The Counter (OTC) hearing device market in the United States.

The certification and audits were conducted by the accreditation body SAI Global.

## MINERAL ASSETS

There has been no change in mineral assets held during the quarter. Nuheara's remaining mining asset consists of an 80% interest in a Net Smelter Royalty located in Northern Peru, held by its subsidiary Terrace Gold Pty Ltd. Nuheara intends to divest the asset as soon as it is commercially practical.

## SUMMARY OF EXPENDITURE INCURRED

### *Research and Development*

Research expenditure that is directly attributable to development activities is capitalised as an intangible asset under Australian Accounting Standards. As a result, expenditure of $1,003k has been capitalised in full this quarter and is shown as "Payments to Acquire Intellectual Property" under cash flows from investing activities at item 2.1(d).

### *Product Manufacturing and Operating Costs*

The campaign for the sale of Nuheara's third generation product, IQbuds$^2$ MAX, continued during the quarter. The first production run was sold out early in quarter and orders have been placed with the contract manufacturer for ongoing production runs. Cash outlay for the quarter included deposits paid on these advance production runs.

***Advertising and Marketing***

Advertising and marketing spend is primarily expenditure directly attributable to the generation of online sales (Direct-to-Consumer or DTC) and traditional retail sales channel support.

***Staff Costs***

Consistent with research and development expenditure noted above, employment expenses related to employees working on research and development activities have also been capitalised as an intangible asset under Australian Accounting Standards.

The remaining staff costs represent corporate, operations, finance, administration, and marketing employees, including related party payments of $231K for non-executive Director fees, and salaries paid to executive Directors during the period (refer item 6.1).

***Administration and Corporate Costs***

Administration and corporate expenses reflect changes made within the business in response to COVID-19, to ensure that the Company remains well positioned operationally and financially to manage the economic uncertainty and business interruption that ensued.

The quarter also reflects expenditure incurred for annual renewals, subscriptions, membership fees and annual audit/tax return preparation.

**ISSUED CAPITAL**

At the date of this report there were 1,392,065,117 ordinary shares and the following unquoted securities on issue:

| Unquoted Securities | Number on issue |
|---|---|
| Unlisted Options – exercisable at 9 cents on or before 17/9/2021 | 1,000,000 |
| Unlisted Options – exercisable at 9 cents on or before 17/04/2022 | 2,500,000 |
| Unlisted Options – exercisable at 5 cents on or before 03/02/2024 | 24,264,706 |
| Unlisted Options – exercisable at 2.6 cents on or before 04/06/2023 | 3,750,000 |
| Unlisted Options – exercisable at 2.5 cents on or before 21/08/2023 | 27,263,332 |
| Unlisted Options – exercisable at 5 cents on or before 21/08/2023 | 2,000,000 |
| Unlisted Options – exercisable at 10 cents on or before 21/08/2023 | 2,000,000 |
| **TOTAL** | **62,778,038** |

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# Appendix 4C

## Quarterly cash flow report for entities subject to Listing Rule 4.7B

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**Name of entity**

NUHEARA LIMITED

| **ABN** | **Quarter ended ("current quarter")** |
|---|---|
| 29 125 167 133 | 30 SEPTEMBER 2020 |

| **Consolidated statement of cash flows** | | **Current quarter $A'000** | **Year to date (3 months) $A'000** |
|---|---|---|---|
| **1.** | **Cash flows from operating activities** | | |
| 1.1 | Receipts from customers(1) | 532 | 532 |
| 1.2 | Payments for | | |
| | (a) research and development(2) | 0 | 0 |
| | (b) product manufacturing and operating costs(3) | (1,344) | (1,344) |
| | (c) advertising and marketing | (407) | (407) |
| | (d) leased assets | - | - |
| | (e) staff costs(2) | (344) | (344) |
| | (f) administration and corporate costs | (830) | (830) |
| 1.3 | Dividends received (see note 3) | - | - |
| 1.4 | Interest received | 4 | 4 |
| 1.5 | Interest and other costs of finance paid | - | - |
| 1.6 | Income taxes paid | - | - |
| 1.7 | Government grants and tax incentives | 347 | 347 |
| 1.8 | Other (provide details if material)(4) | 144 | 144 |
| **1.9** | **Net cash from / (used in) operating activities** | **(1,898)** | **(1,898)** |

1) (a) Includes prepaid orders from customers on IQbuds² MAX not recognised as income until product has been shipped.

(b) Revenue from Phase I of HP collaboration will be received in the next quarter.

2) These numbers exclude expenditure directly attributable to development activities that are capitalised as an intangible asset under Australian Accounting Standards. These capitalised development costs are shown as "Payments to Acquire Intellectual Property" under cash flows from investing activities at 2.1(d).

3) Includes deposits paid on advanced production of IQbuds² MAX.

4) Proceeds from the sale of Vox Royalty Corp shares (TSX-V:VOX) – these shares were acquired as part consideration for the sale of mining royalties last quarter.

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| Consolidated statement of cash flows | | Current quarter $A'000 | Year to date (3 months) $A'000 |
|---|---|---|---|
| **2.** | **Cash flows from investing activities** | | |
| 2.1 | Payments to acquire or for: | | |
| | (a) entities | - | - |
| | (b) businesses | - | - |
| | (c) property, plant and equipment | (17) | (17) |
| | (d) investments | - | - |
| | (e) intellectual property[(1)] | (1,029) | (1,029) |
| | (f) other non-current assets | - | - |
| 2.2 | Proceeds from disposal of: | | |
| | (a) entities | - | - |
| | (b) businesses | - | - |
| | (c) property, plant and equipment | - | - |
| | (d) investments | - | - |
| | (e) intellectual property | - | - |
| | (f) other non-current assets | - | |
| 2.3 | Cash flows from loans to other entities | - | -- |
| 2.4 | Dividends received (see note 3) | - | - |
| 2.5 | Other (provide details if material) | - | - |
| **2.6** | **Net cash from / (used in) investing activities** | **(1,046)** | **(1,046)** |

1) Comprising capitalised development costs of $1,003k (YTD $1,003k) and capitalised patent and trademark applications of $26k (YTD $26k).

| | | | |
|---|---|---|---|
| **3.** | **Cash flows from financing activities** | | |
| 3.1 | Proceeds from issues of equity securities (excluding convertible debt securities) | 300 | 300 |
| 3.2 | Proceeds from issue of convertible debt securities | - | - |
| 3.3 | Proceeds from exercise of options | - | - |
| 3.4 | Transaction costs related to issues of equity securities or convertible debt securities | (40) | (40) |
| 3.5 | Proceeds from borrowings | - | - |
| 3.6 | Repayment of borrowings | (210) | (210) |
| 3.7 | Transaction costs related to loans and borrowings | - | - |
| 3.8 | Dividends paid | - | - |
| 3.9 | Other (provide details if material) | - | - |
| **3.10** | **Net cash from / (used in) financing activities** | **50** | **50** |

| Consolidated statement of cash flows | Current quarter $A'000 | Year to date (3 months) $A'000 |
|---|---|---|

| | | | |
|---|---|---|---|
| **4.** | **Net increase / (decrease) in cash and cash equivalents for the period** | | |
| 4.1 | Cash and cash equivalents at beginning of period | 4,431 | 4,431 |
| 4.2 | Net cash from / (used in) operating activities (item 1.9 above) | (1,898) | (1,898) |
| 4.3 | Net cash from / (used in) investing activities (item 2.6 above) | (1,046) | (1,046) |
| 4.4 | Net cash from / (used in) financing activities (item 3.10 above) | 50 | 50 |
| 4.5 | Effect of movement in exchange rates on cash held | - | - |
| **4.6** | **Cash and cash equivalents at end of period** | **1,537** | **1,537** |

| | | | |
|---|---|---|---|
| **5.** | **Reconciliation of cash and cash equivalents** at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts | **Current quarter $A'000** | **Previous quarter $A'000** |
| 5.1 | Bank balances | 1,370 | 4,245 |
| 5.2 | Call deposits | 167 | 186 |
| 5.3 | Bank overdrafts | | - |
| 5.4 | Other (provide details) | - | - |
| **5.5** | **Cash and cash equivalents at end of quarter (should equal item 4.6 above)** | **1,537** | **4,431** |

| | | |
|---|---|---|
| **6.** | **Payments to related parties of the entity and their associates** | **Current quarter $A'000** |
| 6.1 | Aggregate amount of payments to related parties and their associates included in item 1 | 231 |
| 6.2 | Aggregate amount of payments to related parties and their associates included in item 2 | - |

*Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.*

Directors' fees paid to non-executive Directors and salaries paid to executive Directors

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| 7. | **Financing facilities**<br>*Note: the term "facility' includes all forms of financing arrangements available to the entity.*<br>*Add notes as necessary for an understanding of the sources of finance available to the entity.* | **Total facility amount at quarter end $A'000** | **Amount drawn at quarter end $A'000** |
|---|---|---|---|
| 7.1 | Loan facilities | 1,700 | 1,700 |
| 7.2 | Credit standby arrangements | - | - |
| 7.3 | Other (please specify) | - | - |
| 7.4 | **Total financing facilities** | 1,700 | 1,700 |

| | | |
|---|---|---|
| 7.5 | **Unused financing facilities available at quarter end** | - |

7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

**Secured Redeemable Convertible Security**

Lender: Lind Global Macro Fund, LP

Original Funded Amount: $2.5 million with a face value of $3 million

Conversions:

- 05/06/2020, $200k was converted into 12,500,000 shares at $0.016/share.
- 10/07/2020, a $200k conversion notice was bought back by the Company at $0.110/share plus a 5% premium
- 14/07/2020, $200k was converted into 8,695,653 shares at $0.023/share.
- 24/08/2020, $700K was converted into 20 million shares at $0.035/share

Interest: Nil

Maturity Date: 23/01/2022

Security: All of the 20 million collateral shares that were issued pursuant to the Funding Agreement were purchased by Lind during July 2020 at $0.011/share. No security remains.

| 8. | **Estimated cash available for future operating activities** | **$A'000** |
|---|---|---|
| 8.1 | Net cash from / (used in) operating activities (item 1.9) | (1,898) |
| 8.2 | Cash and cash equivalents at quarter end (item 4.6) | 1,537 |
| 8.3 | Unused finance facilities available at quarter end (item 7.5) | - |
| 8.4 | Total available funding (Item 8.2 + item 8.3) | 1,537 |
| 8.5 | **Estimated quarters of funding available (item 8.4 divided by item 8.1)** | 0.81 |

*Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.*

8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:

8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

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Answer:

No. The following notable items will differentiate the next quarter (December) from the current quarter (September):

- Deposits paid on orders for mass production during the September quarter will not be replicated in the December quarter.
- As at the date of this report, the Company has AUD$4m in trade receivables (product sales and service revenue) which are due for receipt in the December quarter.
- The Company is anticipating the receipt of a Research and Development Tax Incentive cash rebate from the Australian Tax Office for an amount in excess of $1m.

8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer:

The Company continues to review appropriate funding opportunities in accordance with its growth strategy that are in the long-term interests of its shareholders.

8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer:

Nuheara has refocused and reduced business expenditure to prudently manage its capital since COVID-19 disruptions over the last six months. Meanwhile, orders for IQbuds$^2$ MAX sales have remained strong and continue to grow via the DTC online and the retail channels. With the added potential of services revenue and OEM opportunities, the Company will be in a robust position to continue its operations and to meet its business objectives.

*Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.*

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## Compliance statement

1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.

2 This statement gives a true and fair view of the matters disclosed.

Date: 19 OCTOBER 2020

Authorised by: BY THE BOARD
(Name of body or officer authorising release – see note 4)

**Notes**

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.

2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.

3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.

4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [*name of board committee – eg Audit and Risk Committee*]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".

5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

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# Further Information

## Webinar/Conference Call

Nuheara Managing Director and CEO Justin Miller will hold a webinar to discuss the quarterly results.

Date: Wednesday 21 October 2020

Time: 9am (AWST)

Link: https://attendee.gotowebinar.com/register/1188694525649545487


## Authorised by:

**Justin Miller**
Managing Director and CEO
Ph: +61 8 6555 9999

## Investor & media enquiries:

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## CORPORATE INFORMATION

### Directors

The Hon Cheryl Edwardes *AM*
Independent Non-Executive Chairman

Justin Miller
Managing Director/CEO

David Cannington
Executive Director/Chief Marketing Officer

Kathryn Foster
Independent Non-Executive Director

David Buckingham
Independent Non-Executive Director

**Company Secretaries**

Susan Hunter - Company Secretary
Jean-Marie Rudd - Joint Company Secretary

### Securities Exchange

ASX: NUH

### Registered Office

190 Aberdeen Street
Northbridge WA 6003
Phone: + 61 8 6555 9999
Fax: + 61 8 6555 9998

### Principal Place of Business

190 Aberdeen Street
Northbridge WA 6003
Phone: + 61 8 6555 9999
Fax: + 61 8 6555 9998

### Share Registry

Computershare Investor Services
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Phone: +61 3 9415 4000 (outside Australia)

### Website and Email

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