



Sounds of Success

Demant

GN

sonova
HEAR THE WORLD

amplifon

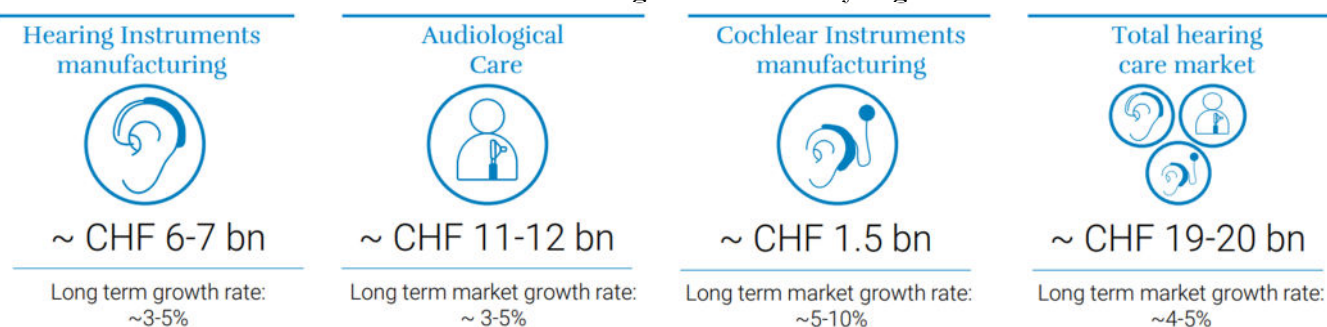
Companies	Ticker	Price	Exchange
Demant	DEMANT	- DKK 277.70	CO
GN Store Nord	GN	- DKK 122.10	"
Sonova Holding AG	SOON	- CHF 225.90	SW
Amplifon S.p.A.	AMP	- €27.65	MI

Overview of the Hearing Aid Market

The global hearing aid market is estimated to be €17 billion in size, with a 4% CAGR. This includes 1.5 billion people who have some hearing loss and 430 million people who require rehabilitation (expected to reach 700 million by 2050). The hearing aid penetration is low at 37% in high-income countries and 5-10% in emerging markets. From 2012-2019, the hearing aid market was growing 5% annually purely by volume, mainly driven by demographics (aging population). In 2020, the market suffered from cautious customer spending. 2021 was a strong year for wholesalers due to pent-up demand following the decline in 2020, creating a tough comparison for 2022. After the pandemic, the market adjusted to growing 4-6% by volume annually with a slight ASP decline from geographic mix shifts towards newer markets like China. Due to inflation and customers typically being on fixed income, they were postponing their hearing aid purchases/upgrades into 2023. Because of this delay, hearing aid companies started focusing on expanding the market penetration by focusing on the younger generations. With strong survey results, the world organizations are looking more into the younger age groups.

Exhibit 1

Global Hearing Care Market by Segment



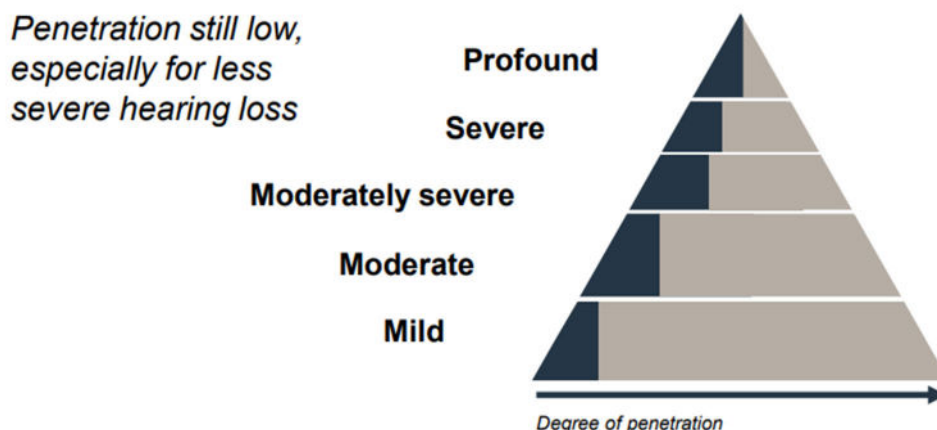
Source: Sonova

Market Penetration

The global penetration of hearing impaired persons is on average 20%. The remaining 80% are those who are not hearing impaired, or those who are hearing impaired but do not know it or do not seek hearing aid support. Of the 20% of those with identified and diagnosed hearing loss, clinically referred to as presbycusis, less than 30% have ever used hearing aids. Some do not like the inconvenience of visiting the audiologists or being fitted in the store. Customers do not actively seek or research the brands, because their biggest concern is the idea of hearing loss, and therefore place the trust in the audiologist to recommend the brand. In the hearing aid industry, a customer knows on average 1.3 brands, which is significantly lower than other industries in which customers know multiple brands. Audiologists remain a key factor in the hearing aid business. Because customers cannot perform a hearing test online, the physical visit to the audiologist is important.

Exhibit 2

Room for Penetration Growth



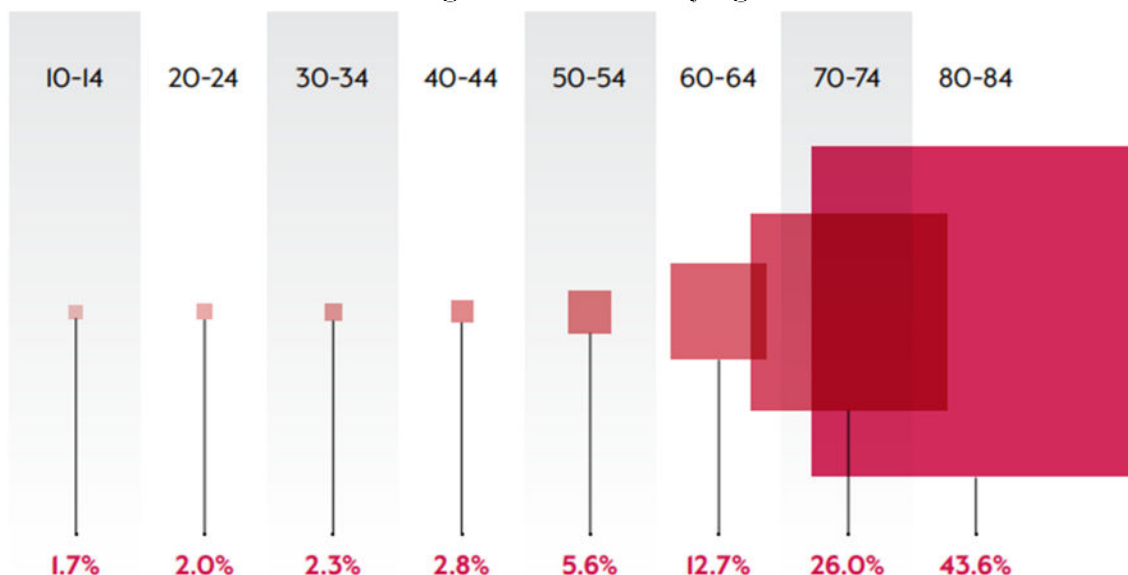
Source: GN

Hearing Aid Market Megatrends

Megatrends are favorable for the hearing aid industry. The aging population continues to have low adoption rates. Consumerization is increasing, along with the strength of digitalization and data. Regulatory shifts continue to expand the market and competitive landscape. Sustainability drives design and manufacturing decisions. According to GN, when asked what prevents people from buying a hearing aid, responses are: “I can wait” (35% of answers), “It won’t work for me” (22%), “It costs too much” (20%), “Stigma and self-perception” (15%), and “It’s too difficult” (9%).

Exhibit 3

Hearing Loss Prevalence by Age



Source: Amplifon

Hearing Aid Types

The hearing aid development phase is typically five years, which is also when most aids are recommended to be replaced. In between the five years, new form factors and price points are launched to stay current and competitive. When thinking about the range of products, the highest priced devices come with many bells and whistles, such as Bluetooth connectivity, smartphone app interface (i.e. Zoom/music), AI-adaptation, and minimal design. The lower-priced devices are simpler, with lower performance and straightforward functions.

Exhibit 4 Phonak’s Naida Paradise BTE

Behind-the-ear (BTE) hearing aids are designed for those with mild to profound hearing loss. Examples include Widex Moment (WS Audiology), Oticon More (Demant), and Phonak Naida Paradise (Sonova), and are priced at €2,500-3,100 per aid/ear. Sound is delivered via clear tubing. A plastic case goes behind the ear, connected to a custom earmold or disposable plastic ear tip.



Source: Phonak

Exhibit 5 Phonak’s Audeo Lumity RIC



Receiver-in-canal (RIC) hearing aids are designed for those with mild to severe hearing loss. Examples include Signia Styletto X (WS Audiology) and Phonak Audeo Lumity (Sonova), with a price of about €2,300 per aid/ear. In RIC hearing aids, a small speaker is placed inside the ear with a plastic speaker wire.

Source: Phonak

Exhibit 6 GN's ReSound One Custom ITC

In-the-canal (ITC) hearing aids are designed for those with mild to severe hearing loss. These customized aids sit inside and outside the ear, as all parts are inside a small plastic shell. Examples include Starkey's Genesis AI and GN's ReSound One Custom, and are priced at €2,350-4,600 per aid/ear.



Source: ReSound

Exhibit 7 Oticon's Opn CIC



Source: Online Hearing

Completely-in-canal (CIC) hearing aids are designed for those with mild to medium hearing loss. They are a customized fit, similar to ITC, but smaller and less visible. Examples include Phonak's (Sonova) Virto M-Titanium and Oticon's (Demant) Opn, priced at €1,400-3,800 per aid/ear.

Exhibit 8 Starkey's Picasso IIC

Invisible-in-canal (IIC) are similar to CIC, and are the smallest aids on the market. An example includes the Picasso (Starkey), which is priced at €1,400-2,900 per aid/ear.



Source: Ideal Hearing

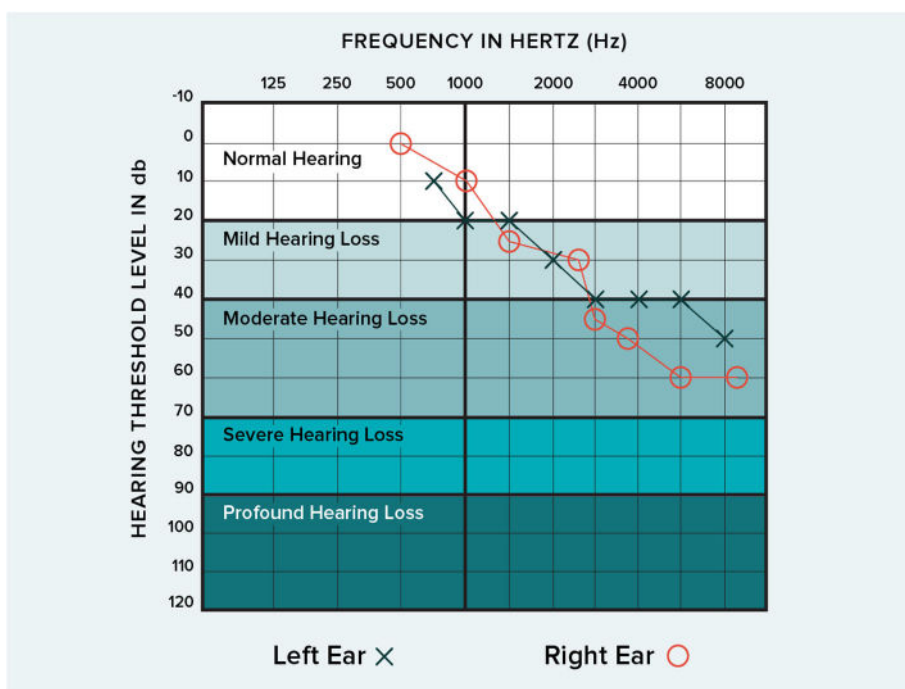
Hearing Healthcare Services

A person who thinks they might have hearing loss tends to visit their general practitioner, who would then refer them to a hearing specialist. The audiologist would perform an audiogram, in which results are reported in terms of frequency and minimum thresholds (Exhibit 9). The price “paid” for the hearing aid can also include the professional services. The specialist associated with the retail store will help fit and program the hearing aid, and can perform diagnostics during a check-up appointment. In a bundled purchase price, services can maintain or repair a device over a specified period. A bundle can also include follow-up visits to help fine tune the aids. To compete with over-the-counter (OTC) hearing aids and to extend lower price points, retailers are also offering unbundled pricing that does not come with fittings/services, in which follow-ups are paid out-of-pocket. Therefore, retailers can stay competitive with OTC by proposing a smaller upfront cost.

The Role of Audiologists and Specialists

Demand varies from country to country, but the role of the doctor is very important (especially in European countries like Italy and France). If a customer wants reimbursement in Europe, then he or she needs a prescription from the ENT council, making the medical community a critical factor in the sale strategy. A majority of potential customers visit the doctor because they believe they have a hearing impairment. Hearing aid customers are aware of the names of the retailers, but not necessarily the manufacturer of the hearing aids sold inside the retail stores. Oftentimes, the customer is surprised they are sold a manufacturer’s device that is different from the retail store name. Once the customer steps foot into the retail shop, the decision and trust is often left to the hearing care professional in the shop.

Exhibit 9 Example of an Audiogram



Source: Healthline

One of the most important selling strategies is to educate the doctors who recommend hearing aids. End users are simply hoping they do not have hearing loss when they visit the clinic, and tend not be knowledgeable about hearing loss or the hearing aid brands. After the doctor looks at the frequencies, they come to a conclusion, and the end user typically follows the doctor’s suggestion. Therefore, it is integral to make sure that these doctors are educated about the device traits and benefits, i.e. processing power.

Replacement Cycle

Typically, the replacement cycle for the device is 3-5 years. In Europe, it is more heavily tied to the reimbursement cycle, which is 4-6 years. When customers have little knowledge of the product offerings, they rely on the audiologist to recommend the best hearing aid. Typically, customers stick with the same brand because they are used to the features, but they are not necessarily stuck on it forever. There is some loyalty driven by the device’s app – since the average customer is over 70 years old, they do not necessarily want to train on a new app unless there is a specific reason to switch brands. The manufacturing cycle is constant, whether it is launching a new version of the device, or adding small features or improvements along the way. If a customer does not replace the device on the average basis, he or she may be missing out on improved functions. Unfortunately, many customers are simply not aware when a new product is released, in contrast with the younger generation as it relates to a technology like the new version of an electronic device.

Wholesale Overview

The wholesaler segment is generally an oligopoly, consisting of: Demant, GN, Sonova, Starkey, and WS Audiology. There is constant consolidation of volume at the distribution part of the value chain. Fundamentally, there is pricing pressure over time. In terms of regulation, there are some kinds of limitations around who can join forces with who. Historically, the market consolidated to benefit from scale and margins, and to push back on pricing.

Scale vs Niche Players

Since Sonova is the largest player in terms of scale, it seeks to generate higher margins than industry average. It is possible that the clever, niche idea generation comes from smaller R&D teams, which is something that a large, highly scaled business might not be able to capture. A smaller company must be razor sharp in decision-making, so if a strategy does not work, it needs to be changed or exited quickly. In general, profitability in the hearing aid retail market is correlated to scale.

Retail Overview

Although large retailers are becoming larger, hearing aid retailers remain a highly fragmented industry. Retailers tend to work with all of the five main wholesalers, and within each country, work with 2-3 brands on average. That strategy is decided at the corporate level, and depends on factors such as: share of wallet, manufacturer's headquarter country, etc. Amplifon is currently #1 with 12% market share, while the #2 has approximately 6% share. Entrants are not too common nor significant due to the barriers of entry. Barriers start with the requirement of audiologists, hearing care professionals, a reputable brand, and efficient distribution network. Costco has been one of the more important and successful entrants in history, but they have already been in the game for 15-20 years. Regulation is considered a threat with ASP pressure of 1%, but also an opportunity with reform and reimbursement. The industry is generally involved in discussions with the government, and tends to be aware of potential changes.

Wholesale vs Retail Margins

In terms of retailers, a typical mom and pop shop marks up the wholesale price by 3-4x. This translates to a very high gross margin, close to 90%, but also requires higher OPEX to run retail on a per unit basis. A retailer needs marketing, lead generation, etc. This contrasts to the wholesaler, which starts with a lower gross margin (due to higher cost of goods to manufacture), but OPEX is significantly lower.

Costco

Over the past 10-15 years, Costco has been a big swing factor in the industry, offering hearing aids at heavy discounted prices, close to €650 per hearing aid. Sonova previously had a 10-year contract with Costco, which came to end, allowing others to enter and offer their products at competitive rates. If the contract comes back into place, then it would act as a risk factor for other players. Costco puts pressure on pricing, and when Sonova was thrown out of the business, the other players were ready to take share. Since there are no contractual obligations or unit commitment, Costco can decide what it wants. Wholesalers do not want to become dependent on them, as they need to be strong in their own distribution, and not sacrifice margin. Some wholesalers are more exposed to retailers than others, and therefore their margins are squeezed more significantly.

OTC Market

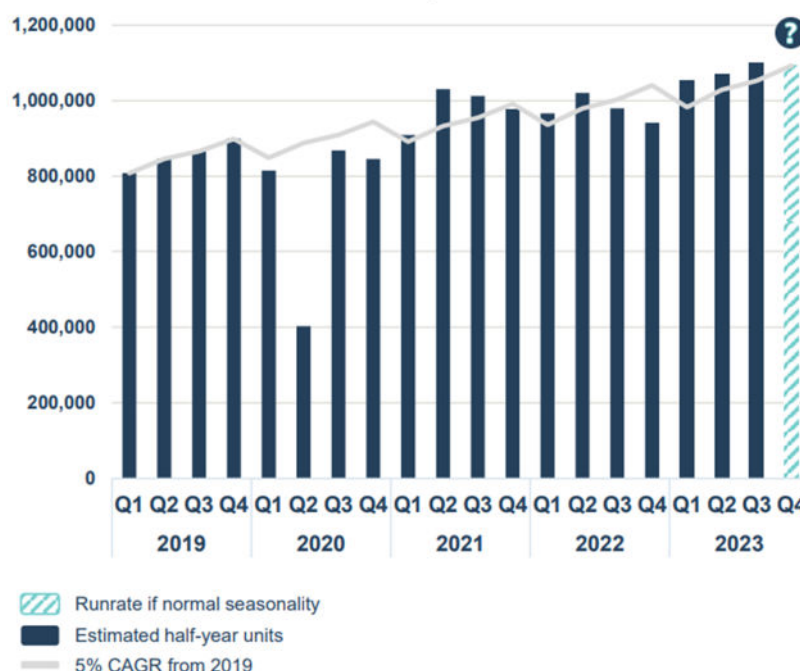
Leaders in the hearing aid market have been consistent in believing that the OTC market will not ultimately change the market structure in a significant way. Consumers that purchase hearing aids today need the professional to diagnose and inform them. Taking the professional out from the equation would not necessarily make people be more interested in purchasing a hearing aid. It is not a product that people are actively seeking. They would not pay \$900 for something that may or may not help them. Online hearing sales that cut out the professional look like a good theory to save costs, but the potential entrants have not been able to scale, ending up with a low conversion rate. There is a large amount of noise around the OTC space, with many new players trying to enter, but the general conclusion is that nothing like this will dramatically change the existing market.

US Market

The US market is €6.5 billion in size, making up 40% of the global market. In the US, baby boomers are on the rise, with 24% of the total population expected to be ages 65+ by 2030, up from 11% in 2010. The hearing aid market was 34% penetrated in 2020, up from 9% in 2010. 40% of the market is private retail chains and 30% is managed care – both segments are growing faster than the overall market. The US market is typically the most volatile due to reimbursement, with expected 2-3% volume growth annually. The US operates a two-tier system, in which there are the doctors in audiology and the hearing care specialists/technicians who attend a 9-12 month training program to fit the devices. The US market has been performing well, with acceleration in the private and commercial markets.

Exhibit 10

US Commercial Market by Volume (Units)



Source: Demant

China Market

The hearing aid market in China is €650 million in size. It is expected to grow to €1 billion by 2024 and become the third largest market by 2030. It is the fastest growing market, with 17% of the population expected to be age 65+ in 2030, up from 5% in 2020. There is a high prevalence of hearing loss at 30%, compared to 20% in developed countries, while the penetration is low at 5% (more in middle class), compared to around 30% or more in developed countries. China is a significant market opportunity, allowing hearing aid companies to increase penetration and drive consolidation in the coming years. Because the market is not yet established, there is no defined reimbursement system, and lack of audiologists. Average retail pricing of €700-800 is good compared to other emerging countries and continues to improve. China is currently more geared towards self-fitting devices and digital platforms (remote support). The main way to enter the Chinese market is through partnerships, bolt-on acquisitions, and new store openings (especially where there is a retail hub in a megacity). It is important to have local synergies to enable local scale, and to be present in areas with high concentrations of seniors.

Australia Market

The Australian market is €500 million size and makes up 3% of the global market. 19% of the total population is expected to be age 65+ by 2030 (up 3% from 2020). Australia is an attractive economy amongst the highest disposable income per capita. The market is 40% penetrated and is continuing to increase. There is low brand awareness in hearing care, creating a sizable opportunity in the private market. The government offers efficient programs that grant pensioners support for hearing loss. Amplifon made a strategic decision to enter the Australian market in 2021 by acquiring Bay Audio, a leading private independent retailer with over 100 sale points.

Europe Market

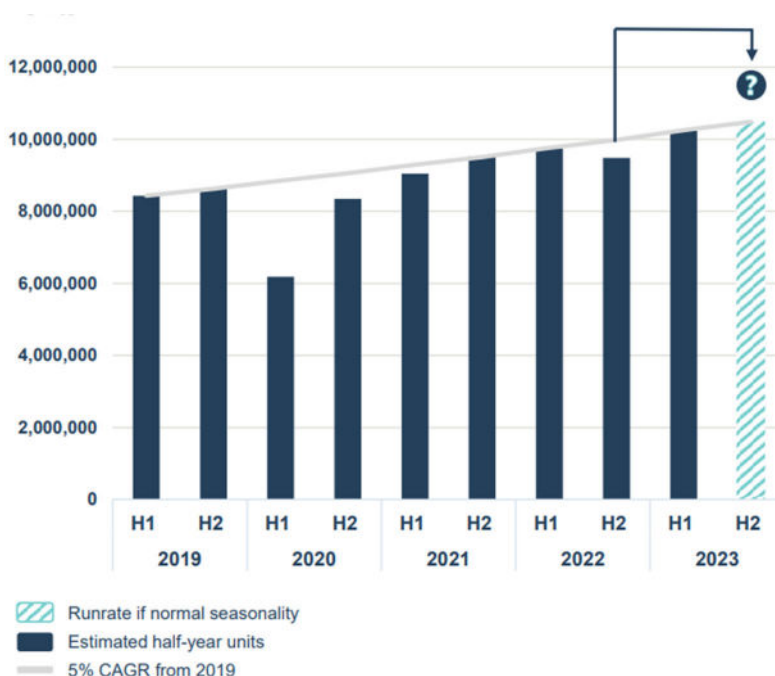
In Europe, the major markets include: France at €1.9 billion (11% of global market), Germany at €1.5 billion (9%), Italy at €900 million (5%), and Spain at €600 million (4%). Some countries, such as Germany, strictly require master audiologists in every store, while others are more lenient with the professional representation. After the pandemic, the European market remains subdued due to consumer confidence and the macro environment.

Example of Positive Regulation Change

The most recent large reimbursement change was in France in 2021. Before the reform, French citizens did not have full reimbursement for hearing aids. They were receiving €300-400 from the government and paid €700-800 out of pocket to access the basic product lines. After the reform, the national healthcare system is now fully reimbursing Category 1 (entry level) products for €950. It also lowered the eligibility criteria to 30 decibels for mild hearing loss. The reform maintains the customers' freedom if they wish to own a superior product category, and can use the €950 towards that upgrade. Customers also have the opportunity to renew their hearing aid after four years instead of previously five years. Therefore, in 2021, hearing aid companies experienced the large benefit from France, and will see another benefit in 2025 from the renewal cycle. Because of the reform, sales volumes increased 60-70%, and the value of the French market increased 30%. This brought the overall penetration of the French market close to 50%, making it one of the most penetrated markets in Europe along with the UK and the Nordics. Oftentimes, it takes several years for reforms to finalize after the government starts the discussion. In the case of France, discussions started in 2018, and reform was implemented in 2021. In the US, discussions started in 2016, and the changes were implemented in 2022. In terms of future reform, no other countries are currently in discussion, while industry players remain aware of any potential changes.

Exhibit 11

Global Hearing Aid Market by Volume (Units)



Source: Demant

Global Pricing & Reimbursement

Pricing of hearing aids vary from country to country, as ASP is affected by the reimbursement system. The US and Switzerland have the highest ASP, with averages of \$2,400 and CHF 2,000, respectively. This contrasts to Italy of €1,600-1,700 and Germany of €1,100. Germany offers its population an attractive eligibility criteria, in which hearing aids cost only €850 for moderate types of hearing loss. In Italy, customers must have a higher type of hearing loss to achieve a €600 discount. In China, the ASP is on average €800, while Netherlands is much lower than other European countries at €700-800. Reluctance around purchasing decisions lies in out-of-pocket expenditure. In the US, 65% of customers pay out-of-pocket, while Europe operates a hybrid model with subsidies (approximately 60% pay partial out-of-pocket).

Consumer Behavior

The hearing aid market was down 65% in 2020 but returned to growth in September of the same year. During the decline, some customers tested remote functions, adopting a more online/remote-focused situation. Today, there are new customers coming into the market (aging population), while replacement customers tend to be waiting or delaying the replacement. Instead of sticking to the 3-5 year cycle, they may decide to keep wearing the same device for another year. From a retailer's perspective, inflation is the main factor in this lower purchasing power, which has started to improve in 2023 in US and Canada.

M&A and Market Consolidation

The wholesale market is already an oligopoly, so the room for further consolidation is small. In terms of retailers, the market is much more fragmented with higher volumes of deals. Approximately 50% of shops are independents, 35% are specialty retailers, 10% are non-specialty retailers, and the remainder is online. Potential targets carry high valuations, and some deals could pose anti-trust issues in certain markets. An acquisition would typically consist of at least 5-10 stores, while larger assets may come up for sale from time to time. Looking at the valuations of some of the larger value chains, bolt-on acquisitions are typically at 1.5-2.0x revenue. To enter a specific geography, a retailer may pay more than the typical 2x revenue, due to more complex rationale. Example of larger retailer deals with higher revenue multiples include Amplifon's purchase of Bay Audio (Australia) and GAES (Spain) and Demant's purchase of ShengWang (China). These companies chose to acquire their way into a bigger or better platform, transforming their reach into stronger key markets. Acquirers work to elevate the target's margins towards the corporate average.

Table 1 **Hearing Healthcare Transactions**

Date	Target	Buyer	Price (€ Millions)	Revenue (€ Millions)	EBITDA (€ Millions)	Revenue Multiple	EBITDA Multiple
Jun-23	BelAudicao	MCH	65	35	-	1.9x	NA
Jun-22	ShengWang	Demant	249	40	-	6.2	NA
Jan-22	Alpaca	Sonova	271	105	-	2.6	NA
May-22	Intricon	Altaris Capital Partners	215	111	-	1.9	NA
Jan-22	SteelSeries	GN	1,080	293	39	3.7	27.7
Dec-21	Lively	GN	84	13	-23	6.5	NA
Mar-22	Sennheiser Consumer	Sonova	200	250	-	0.8	NA
Oct-21	Bay Audio	Amplifon	340	100	30	3.4	11.3
Mar-19	Sivantos	Widex	7,000	1,600	350	4.4	20.0
Dec-18	GAES	Amplifon	530	210	30	2.5	17.7
Jan-19	Rayovac	Energizer	1,630	706	138	2.3	11.8
Jan-17	GN Otometrics	Natus	190	98	13	1.3	10.0
Sep-16	AudioNova	Sonova	830	360	58	2.3	14.4
Sep-15	Audika	WDH	169	99	-	1.7	NA
Jan-15	EQT/Strungmann	Siemens Audiology	2,150	693	156	3.1	13.8

Source: Public data, Gabelli Funds estimates

Average	3.0	14.3
Median	2.5	13.8

We list the major hearing aid transactions since 2015 above. Many more transactions of smaller deal sizes exist, although oftentimes deal terms are not disclosed. The average revenue multiple paid is approximately 3.0x, while the median is 2.5x. In terms of EBITDA (when disclosed), the average multiple paid is 14.3x, while the median is 13.8x. Companies that are in underpenetrated geographies or emerging markets tend carry higher multiples than more of a traditional bolt-on consolidation deal.

The last notable merger of wholesalers was Widex and Sivantos in March 2019, which formed WS Audiology, the third largest supplier in the industry. This transaction created what is known today as the Big Five (GN, WS Audiology, Demant, Starkey, Sonova). Due to the highly consolidated wholesale market, we do not anticipate any large deals to be further announced among the Big Five.

In terms of retailers, we believe the big players will continue to direct attention towards untapped markets, such as China and Australia. In areas where retailers are currently present, we assume revenue multiples between the normal 1.5-2.0x; while in new areas, multiples could be higher.

Summary

In the subsequent pages, we provide overviews of public European companies that have been and will be integral in directing both wholesale and retail elements of the hearing aid industry.

Table 2 **Hearing Aids Grid**

(in millions, except per share data)		Demant (CO: DEMANT)		GN Store Nord (CO: GN)		Sonova Hearing AG (SW: SOON)		Amplifon S.p.A. (MI: AMP)	
(numbers are pro forma if appropriate)									
12-Month High/Low		DKK 312.30	DKK 173.65	DKK 197.85	DKK 110.10	CHF 293.20	CHF 205.80	€36.27	€24.10
Capitalization		FYE 12/31		FYE 12/31		FYE 3/31		FYE 12/31	
Balance Sheet as of:		6/30/2023		6/30/2023		3/31/2023		9/30/2023	
Fully Diluted Shares Outstanding		223.1		145.3		60.4		225.5	
Price as of	11/06/23	DKK 277.70		DKK 122.10		CHF 225.90		€27.65	
Equity Market Capitalization		DKK 61,954.9		DKK 17,741.1		CHF 13,651.8		€6,234.9	
+ Total Debt and Liabilities		11,936.0		13,530.0		1,910.7		883.8	
+ Minority Interest		6.0		7.0		18.9		-	
- Cash and Equivalents		1,158.0		1,008.0		413.9		215.5	
Total Enterprise Value (TEV)		DKK 72,738.9		DKK 30,270.1		CHF 15,167.5		€6,903.2	
Consolidated:									
Net Revenues	2024P	DKK 23,900.0	6.8%	DKK 19,460.0	6.9%	CHF 3,990.0	7.0%	€2,470.00	7.9%
Growth	2023E	22,370.0	13.5%	18,210.0	-2.6%	3,730.0	-0.2%	2,290.0	8.1%
	2022	19,705.0	7.0%	18,687.0	18.5%	3,738.4	11.1%	2,119.1	8.8%
	2021	18,418.0	27.3%	15,775.0	17.3%	3,363.9	29.3%	1,948.1	25.2%
EBITDA - Adjusted	2024P	5,950.0	24.9%	3,180.0	16.3%	1,090.0	27.3%	611.7	24.8%
Margin	2023E	5,530.0	24.7%	2,420.0	13.3%	987.7	26.5%	557.1	24.3%
	2022	4,308.0	21.9%	2,391.0	12.8%	977.4	26.1%	514.1	24.3%
	2021	4,386.0	23.8%	3,485.0	22.1%	960.4	28.6%	470.5	24.2%
EPS - Cont. Ops	2024P	DKK 13.78	40.9%	DKK 8.75	102.5%	CHF 11.60	12.4%	€1.07	13.8%
Growth	2023E	9.78	-2.8%	4.32	8.0%	10.32	-2.6%	0.94	19.0%
	2022	10.06	-6.0%	4.00	-70.7%	10.60	4.5%	0.79	11.3%
	2021	10.70	128.9%	13.63	30.3%	10.14	16.7%	0.71	10.5%
TEV to Revenues	2024P	3.0 x		1.6 x		3.8 x		2.8 x	
	2023E	3.3		1.7		4.1		3.0	
	2022	3.7		1.6		4.1		3.3	
	2021	3.9		1.9		4.5		3.5	
TEV/EBITDA	2024P	12.2 x		9.5 x		13.9 x		11.3 x	
	2023E	13.2		12.5		15.4		12.4	
	2022	16.9		12.7		15.5		13.4	
	2021	16.6		8.7		15.8		14.7	
Adjusted P/E	2024P	20.2 x		14.0 x		19.5 x		25.8 x	
	2023E	28.4		28.3		21.9		29.4	
	2022	27.6		30.5		21.3		35.0	
	2021	26.0		9.0		22.3		38.9	
Total Debt/EBITDA		2.2 x		5.6 x		1.9 x		1.6 x	
EBITDA/Interest		0.1 x		5.9 x		28.0 x		17.1 x	
Net Debt/TEV		14.8 %		41.4 %		10.0 %		9.7 %	

Source: Public data, Consensus estimates.



Demant (DEMANT – DKK 277.70 - CO)

Strategy for Success

Year	EPS	P/E		
2025P	DKK 15.75	17.6x	Dividend: None	Current Return: Nil
2024P	13.78	20.2	Shares O/S: 223.1 million	
2023E	9.78	28.4	52-Week Range: DKK 312.50 – DKK 173.65	
2022A	10.06	--		

Source: Consensus estimates

COMPANY OVERVIEW

Headquartered in Smørum, Denmark, Demant is a global hearing healthcare and audio technology group that offers hearing aids, audio equipment, communication, and related retailers/services. The company had its IPO in 1995 under the name of Oticon. As it grew into diagnostics and other areas, it was renamed William Demant Holding after the son of the founder. To create more synergies with the business and move away from the holding company structure, it rebranded to Demant in 2019. In 2022, the company generated DKK 19.7 billion revenue, DKK 4.3 billion EBITDA, and DKK 10.06 EPS.

- Hearing Aids (DKK 8.23 billion revenue, 42% of 2022 revenue): This is essentially Demant's legacy business, in which it went public with in 1995. Previously a pure-play wholesaler, the business has since extended. Demant develops, manufactures, and wholesales its hearing aids under the brands including Oticon, Bernafon, Sony, and Philips.
- Hearing Care (DKK 8.12 billion revenue, 41%): Demant operates 3,500 retailers globally. In the retailers themselves, Demant's products are 95% share of wallet, in which Demant employs its audiologists. Demant used to compete with other larger retailers like Amplifon that bought other retailers to consolidate the market. Because the end users tend not to have strong preferences when it comes to which brand they use, the bargaining power of retailers are large. On the retail side, Demant has built up its footprint by various acquisitions including Audika in 2015 (France), and ShengWang in 2022 (China).
- Demant is represented by four different brands of retailers depending on the geography: HearingLife in the US, Hidden Hearing in the UK, Audika in Europe, and ShengWang in China.
- General scale effects exist when a certain sized company is required to invest in R&D and channel access. Sonova leads the way with 32% market share, followed by Demant and WS Audiology (private) with similar shares of 23-24%, followed by GN at 12% and Starkey (private) at 7%. In terms of retailers, Amplifon leads the way in a much more fragmented market, while they also sell their own private label.
- Diagnostics (DKK 2.29 billion revenue, 12%): The Diagnostics business has been built through several acquisitions, and includes solutions such as audiometers, tympanometers, and various assessment tools. These products are used by audiologists and ear-nose-and-throat (ENT) specialists. Along with the product revenue comes a bit of service revenue, from servicing and calibrating the equipment, and some disposable revenue (i.e. eartips).
- Communications (DKK 1.06 billion revenue, 5%): This business is separate from the core of Hearing Healthcare, and includes headsets for call centers and office equipment, and video and gaming. It was operated as a joint venture with Sennheiser from 2003-2019 before it was de-merged and split. Demant decided to part ways due to different focuses, and took full ownership of the Enterprise business (including gaming) from 2020. Today, this segment is a turnaround story, and is currently dilutive to margins because Demant scaled for higher growth in the business during the pandemic than what materialized. But if Demant successfully turns it around by right-sizing it and making it profitable, this segment could be a significant upside to the overall story.
- Management: CEO Søren Nielsen has worked with Demant for nearly 30 years. Engineer by trade, he brought up the company, starting with the integration of a hearing aid manufacturer (Bernafon) as a quality director. In 2015, he was appointed Deputy CEO (when Demant was William Demant) and Executive Board member.
- In FY 2023, the company expects to grow organic revenue by 11-14%, grow from acquisitions by 3%, experience -2% FX headwinds, and generate operating profit of DKK 4.0-4.4 billion.



GN Store Nord (GN – DKK 122.10 - CO)

The Future of Technology

Year	EPS ^(a)	P/E	
2025P	DKK 11.40	10.7x	Dividend: DKK 1.55 Current Return: 1.3%
2024P	8.75	14.0	Shares O/S: 145.3 million
2023E	4.32	28.3	52-Week Range: DKK 197.85 – DKK 110.10
2022A	4.00	--	

Source: Consensus estimates

COMPANY OVERVIEW

Headquartered in Ballerup, Denmark, GN Store Nord is a pure-play manufacturer for hearing aids and headsets. In FY 2022, the company generated DKK 18.7 billion revenue (5% organic growth) and DKK 2.4 billion EBITDA. Its business is composed of two segments. GN Audio (headsets) has been in recent decline due to a challenging global supply chain and lower customer sentiment. GN Hearing (hearing aid wholesale) saw 5% organic growth in 2022 from a strong product portfolio.

- GN Audio (DKK 12.45 billion, 67% of 2022 revenue): Apart from hearing aids, the main revenue stream of GN is GN Audio, consisting of audio (headsets), video, gaming solutions, and intelligent hearing. The headset market is a penetration game, in which GN holds approximately 50% share, followed by HP at 25%. With 500 million office workers around the world, only 20% are utilizing a headset for work. After the pandemic, many people have still working from home or on a hybrid basis, which requires high-quality meetings on video calls, and another headset at home. GN partners with companies like Microsoft to develop features, and to offer various form factors and price points. It sells 65% of headsets through employers and the remainder through retailers like Best Buy and Amazon.
- In January 2022, GN completed the acquisition of SteelSeries for DKK 8 billion (over €1 billion), a manufacturer of software-enabled gaming gear. With this asset, GN strengthens its position in the upscale gaming gear and premium audio markets. The gaming gear market is expected to grow 7-8% annually. In pro forma 2022, SteelSeries generated DKK 2.18 billion revenue and 13.3% EBITDA margin.
- GN Hearing (DKK 6.23 billion, 33%): GN manufactures a wide range of hearing aids, under brand names such as ReSound and Beltone. To stay competitive with the OTC market in the US, it recently launched its Jabra Enhance Plus earbuds. Its online platform enables consumers to explore, purchase, and order hearing aids to their homes in the US. Jabra can be purchased online or in retailers like Best Buy, via online support by audiologist, and in-person via a professional test and specialist.
- As GN is a pure-play wholesaler when it comes to hearing aids, it has no desire to own or operate as a retailer. It believes the current retailers (ie. Amplifon) are the best and does not want to compete. GN can develop strong products that a retailer can then sell at a higher price. GN does not want to compete for the end customers, and uses that to their advantage with mom and pop shops. It is a trusted partner, rather than a combined wholesaler/retailer that may want to push independent shops' success out of the way.
- Technology Trends: In the long-term, the technological element will only become a more significant factor in hearing aid features. GN has partnered with companies like Sonde Health to research into additional health conditions for mild cognitive impairment (i.e. depression, dementia, Alzheimer's). The analysis of the tone of voice using the hearing aid could detect and reveal early signs of these mental health diseases. Today, 12-18% of adults ages 60+ suffer from mild cognitive impairment, of which 10-20% will develop dementia-related diseases from ages 65+. The idea here is to use the device as more than just a hearing aid.
- In FY 2023, GN Store Nord expects revenue of -4% to +2%. Q2 saw a better than expected start in GN Hearing, resulting in a raise in guidance to 9-13% organic revenue growth. GN Audio continues to be pressured by challenging market conditions in Enterprise demand, resulting in updated guidance to -10% to -4% revenue decline. The goal is to get back towards 20% EBITA margin in the GN Hearing business, by leveraging the 60%+ gross margin and benefitting from improved freight/input costs.



Sonova Holding AG (SOON – CHF 225.90 - SW)

Full Spectrum Wholesaler

<u>FYE 3/31</u>	<u>EPS</u>	<u>P/E</u>	
2025P	CHF 12.71	17.8x	Dividend: CHF 4.60 Current Return: 2.1%
2024P	11.60	19.5	Shares O/S: 60.4 million
2023E	10.32	21.9	52-Week Range: CHF 293.20 – CHF 205.80
2022A	10.60	---	

Source: Consensus estimates.

COMPANY OVERVIEW

Headquartered in Stäfa, Switzerland, Sonova is a wholesaler and retailer of hearing care solutions. In FY 2022, the company grew revenue by 11% to CHF 3.7 billion, including acquisitions and product launches. The Hearing Instruments business grew 12%, with 2% organic growth and remainder from acquisitions (Sennheiser). The Cochlear Implants business grew 3%, with volumes negatively affected by hospital staffing challenges and supply shortages.

- Hearing Instruments (CHF 1.81 billion, 48% of 2022 revenues) is Sonova's hearing aid business, in which the company holds #1 share as hearing aid manufacturer. The brands under this segment include Phonak, Unitron, and Hansaton.
- Audiological Care (CHF 1.36 billion, 36%), related to the Hearing Instruments business, is Sonova's hearing aid retailer segment. In 2016, it acquired AudioNova for €830 million, expanding Sonova's retail presence in the European market. At the time, AudioNova was expected to contribute CHF 210-220 million revenue and CHF 25-30 million EBITA. This deal added 1,300 stores in eight countries, which brought Sonova's total to over 3,300. Today, Sonova sells approximately 15% of their units in their own stores, while the majority of 85% is through a third-party, with no customer accounting for more than 10%. Customers include the Veterans Affairs, large retail accounts, and government organizations such as the NHS.
- Consumer Hearing (CHF 284 million, 8%) is the Sennheiser Consumer Division, which has gained market share through successful product launches. Approximately 60% of its sales originate online, with a goal to increase this proportion over time. In March 2022, Sonova completed the acquisition of Sennheiser Consumer Division for €200 million, creating the new Consumer Hearing business within the Hearing Instruments segment. Consumer Hearing targets the true wireless headset market, speech-enhanced hearables, and audiophile headphones. At the time of announcement, Sennheiser Consumer Division generated approximately €250 million via both online and in-store distribution networks such as Best Buy. This deal allows Sonova to further compete in the OTC market, although the company remains confident that OTC will continue to be a slow uptake.
- Cochlear Implants (CHF 287 million, 8%): In 2010, Sonova completed its acquisition of Advanced Bionics for \$489 million, in order to cast its net across a broader customer spectrum. This acquisition allowed Sonova to enter the cochlear implant market of 10-15% annual growth. At the time of announcement, Sonova committed to doubling this asset's sales and increasing its EBITA margin to over 20% in three to five years. The science behind cochlear implants is that the digital signal goes through the headpiece rather than the wireless going through the speaker. This can be used simultaneously in both ears. This offering brings more people into the category, and oftentimes is done easily through education. 40% of this market is in pediatrics for children that are born deaf.
- M&A: Sonova typically spends CHF 75-100 million per year on new stores (approximately 200) via greenfield sites and acquisitions. Despite the cheaper initial investment in a greenfield, it is sometimes more difficult to find audiologists and acquire new customers as 60% are purchasing on a replacement cycle. To enter China, Sonova acquired HYSOUND in 2022, which included more than 200 stores that were generating over CHF 30 million revenue annually.
- In FY 2023, Sonova expects sales to grow 3-7%, and EBITA to grow 6-10%. Mid-term guidance implies 40bps of annual margin improvement. The company could improve more but it wants to reinvest in innovation and customer-facing type of resources. The goal is to reach mid-teens margin on the consumer business over the next few years.



Amplifon S.p.A. (AMP - €27.65 - MI)

Retail Around the Globe

Year	EPS	P/E	Dividend: €0.29	Current Return: 1.1%
2025P	€1.19	23.2x	Shares O/S: 225.5 million	
2024P	1.07	25.8	52-Week Range: €36.27 - \$24.10	
2023E	0.94	29.4		
2022A	0.79	---		

Source: Consensus estimates.

COMPANY OVERVIEW

Headquartered in Milan, Italy, Amplifon is global retailer of hearing aids. It was founded in 1950, in hopes to support those from hearing loss due to World War II. Since then, Amplifon has opened stores worldwide, and is present in nearly 30 countries. In FY 2022, the company generated €2.1 billion revenue, holding 12% share of the €17 billion global market. The most important markets include the US (approx. 300 corporate shops and 1,300 franchises), Australia (approx. 350 points of sale), China (approx. 760 shops and 260 shop in shop/corners), and EMEA (approx. 3,300 corporate shops and 3,200 shop in shop/corners).

- Amplifon acts as a global hearing care specialist and retailer. Its top manufacturer brands are Oticon (Demant), Phonak (Sonova), and Sivantos (WS Audiology), and sells all of the Big Five, which also include GN and Starkey. Amplifon buys the final products, and this purchase goes into COGS, so the total COGS is below 20%, for both hearing aids and accessories (hearing aids cost 10-15% of topline).
- Geographies: In the US, Amplifon works with Siemens (WS Audiology), and Starkey. 30% of revenue is managed care, and Amplifon works with insurance companies to provide solutions. In EMEA/APAC, it is direct retail, where Amplifon owns its shops and employees. In Italy for example, there are thousands of shop in shop/corners. Audiologists visit the pharmacies or optical shops weekly to perform the tests for customers, and then the customer is asked to visit the closest point of sale to make the purchase. The shop in shop does not perform the sale, but instead redirects the client to the point of sale.
- Amplifon has recently introduced its own hearing aids. It will not offer its own brand everywhere, but more so in Europe. The advantage of having its own brand is important as it increases total brand equity. Sometimes, there are customers that visit an Amplifon shop that expect an Amplifon product. They are left confused as to why they receive a competitor brand, and this is where the education from the audiologist comes into play. By selling its own brand, Amplifon can leverage products and host campaigns for offerings. The company is also developing an app to satisfy customer needs, decrease the need for physical interaction, and gather important utilization data. The initial reasoning was to have a high-quality private label, which also had a positive effect on product mix. If Amplifon could convert someone from the social segment to top-up, then it could implement a 1-2% increase in ASP from the product experience rollout.
- Service is an important component, and Amplifon innovates with Ampli-Care to make the customer experience more unique. This allows the company to over-perform the market, by generally 1-2%.
- M&A is Amplifon's strategy to gain geographic market share, with bolt-on acquisitions adding a couple of points to topline growth every year. This typically averages to be a €100-120 million investment to inorganically grow the business. For example, Amplifon acquired Miracle-Ear to gain access to points of sale in the US. To enter Australia, it acquired Bay Audio in 2021 for €340 million. Because this was a new geography, Amplifon was willing to pay 3.4x sales, which is more than the average 1.5-2.0x for a typical retail play.
- Pricing: Amplifon has increased pricing since January 2023, which helped support the strong organic growth of 7%+ in Q1. 50% of sales were from new customers, while 50% were from returning customers (they already have a hearing solution, but need to replace it after 4-5 years). Some customers have decided to postpone the replacement for another year, negatively affecting sales.
- In FY 2023, Amplifon expects to generate €2.29 billion revenue, driven by market share gains, positive pricing actions, and bolt-on acquisitions. This translates to approximately €550 million EBITDA, assuming no further slowdowns in economic activity.

Sara Wojda
+44 (0)20 203 2116
swojda@gabelli.com

© Gabelli Funds 2023

ONE CORPORATE CENTER RYE, NY 10580

Gabelli Funds

TEL (914) 921-51000

This whitepaper was prepared by Sara Wojda. The examples cited herein are based on public information and we make no representations regarding their accuracy or usefulness as precedent. The Research Analyst's views are subject to change at any time based on market and other conditions. The information in this report represent the opinions of the individual Research Analyst's as of the date hereof and is not intended to be a forecast of future events, a guarantee of future results, or investments advice. The views expressed may differ from other Research Analyst or of the Firm as a whole.

As of June 30, 2023, affiliates of GAMCO Investors, Inc. beneficially owned less than 1% of all other companies mentioned.

This whitepaper is not an offer to sell any security nor is it a solicitation of an offer to buy any security.

Investors should consider the investment objectives, risks, sales charges and expense of the fund carefully before investing.

Gabelli Funds, LLC is a registered investment adviser with the Securities and Exchange Commission and is a wholly owned subsidiary of GAMCO Investors, Inc. (NYSE: GBL).

For more information, visit our website at: www.gabelli.com or call: 800-GABELLI

800-422-3554 • 914-921-5100 • Fax 914-921-5098 • info@gabelli.com