

audientes

Smart, self-fitting high-quality hearing aid

Q1 INTERIM REPORT

January 1 - March 31, 2021



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Audientes in brief

Audientes is one of the new players in the global hearing aid market. The company has developed a new self-fitting hearing aid, which will be rolled out in the Indian market in Q3 2021 before being introduced to the US OTC market and other markets. Audientes' mission is to help the many millions who suffer from disabling hearing loss but cannot afford to buy one of the very expensive conventional hearing aids on the market.

Today, nearly 500 million people globally suffer from disabling hearing loss, of whom 400 million do not have a quality solution to address their hearing loss. The WHO estimates that, by 2050, the number of people with disabling hearing loss will reach 900 million. This is nothing short of a global health issue. Audientes wants to be part of the solution to this issue by offering affordable, self-fitting binaural hearing aids for the benefit of all.

Audientes is headquartered in Copenhagen, Denmark and listed on Nasdaq First North Growth Market Denmark (AUDNTS).



Building momentum

The first quarter of 2021 saw Audientes build momentum on product and market development in the lead up to its impending product launch with planned market availability in 2021.

"Q1 2021 has been marked by several significant accomplishments before the actual product launch in Q3 2021. With our local presence in India, despite and with respect for the COVID-19 pandemic, we have been able to conduct important product and customer tests in four major cities in India, and we have even launched improved technical specifications in an elegant design that we take to market later this year. Operating profit (EBITDA) in Q1 2021 was DKK -2.6 million, which is in line with expectations, and the outlook for 2021 is maintained," comments Steen Thygesen, CEO of Audientes A/S.

Financial highlights

TDKK	Q1 2021	Q1 2020	2020
Revenue	0	0	0
EBITDA	-2,610	-43	-5,548
Loss for the period	-2,751	-43	-5,561
Cash and cash equivalents	28,409	16	30,364
Equity	35,620	3,878	38,372
Equity ratio (%)	88	50	91
Earnings per share (DKK)	-0.29	-0.01	-0.79
No. of shares beginning of the period	9,349,010	3,687,300	3,687,300
No. of shares end of period	9,349,010	3,687,300	9,349,010

Highlights Q1 2021

- **Investments and expenditures in line with expectations** with less travel activity than planned. Accordingly, Audientes had a robust financial position at the end of Q1 2021 with cash holdings of TDKK 28,409.
- **Critical user tests in several cities throughout India** completed in Q1 2021, enabling us to gather vital user feedback on device performance, design and fit.
- **Implementation of the multichannel sales platform** commenced in Q1 2021. The platform enables us to market and sell our products and accessories worldwide through numerous ecommerce channels and will simultaneously facilitate the dialog and collaboration with B2B sales partners in various markets with whom we plan to launch our product in Q3 2021.
- **Significant technical boost** announced in March 2021 which, together with an enhanced design, greatly reinforces the offering of our self-fitting hearing aid.
- **Continued focus on gaining FDA clearance** for our hearing aid, although the introduction of pending new OTC legislation has been delayed by the US authorities.

2021 outlook maintained

- **Indian subsidiary** - In Q2 2021, we will be establishing our Indian subsidiary with both office facilities and a customer experience center in the southern Indian city of Hyderabad. Mass production and sales start is targeted for Q3 2021.
- **Outlook maintained** - in 2021, Audientes expects revenue in the range of DKK 3.5 to 5.0 million and operating profit (EBITDA) in the range of DKK -12 to -14 million. The operating losses for 2021 should be viewed in the light of the ongoing development activities and intensified marketing focus for the second half of 2021.



Letter from the CEO

In the first quarter, Audientes continued its journey towards the successful commercialization of its affordable, self-fitting quality hearing aid. Critical market tests were carried out in India, in accordance with COVID-19 guidelines, and we announced improved technical specifications which, together with an enhanced design, improves the potential of the OTC product we are bringing to market this year.

Commercialization in India continues as planned

In Q1 2021, with respect for the restrictions imposed because of the COVID-19 pandemic, we successfully carried out critical user testing in several cities throughout India, enabling us to gather vital user feedback on device performance, design and fit.

With our strong focus on the Indian market, we have monitored the worsening COVID-19 situation there closely and, in particular, the pandemic's troubling impact on businesses and individuals across the country. But with increasing international support and aid, we remain confident that the situation will stabilize before our market launch in Q3 2021.

Thus, the commercialization effort in India is progressing as planned as we are implementing our multichannel sales strategy, ensuring that we are able to market and sell our products and accessories through numerous ecommerce channels worldwide from day one while simultaneously supporting B2B sales partners in various markets with whom we plan to launch our product in Q3 as sales ramp up.

We will soon establish an Indian subsidiary in Hyderabad in southern India and have already started local recruitment of the marketing, sales and technical product support team.

Enhanced design and significant technical boost

In early March, we announced an enhanced product design of our self-fitting hearing aid, which has received positive response from potential customers and retailers. We have significantly improved the product design compared with previously demonstrated designs. We have also further enhanced the smartphone application which will be available for both Android and iOS – greatly advancing the user experience with additional easy-to-use functionality.

Moreover, the technical specifications have received a significant upgrade. Our hearing aid now supports Active Noise Cancellation making running the built-in hearing test (using Pure Tone Audiometry) a breeze and securing an even better fitting experience for the user. This technology also improves sound reproduction for music playing, where the hearing aid functions as a high-quality headset.



Steen Thygesen - CEO, Audientes A/S

The fitting process itself is supported by the leading standard, the NAL NL-2 algorithm. National Acoustics Laboratories (NAL) in Australia developed this fitting algorithm, which is used by audiologists and in quality hearing aids around the world.

Letter from the CEO

We continue our efforts to gain FDA clearance

Since 2017, the US Food and Drug Administration (FDA) has been working on new guidelines for the so-called “over-the-counter” (OTC) sale of hearing aids, making them more easily accessible through a much-expanded set of retail channels, while still requiring registration of the products with the FDA as a medical device.

However, these guidelines have been postponed several times and an update on when the guidelines will be published is pending. We will continue our efforts to gain FDA clearance for our hearing aid. Once this has been secured, our product can be marketed as a hearing aid, i.e. a medical device.

In any event, we will continue to focus on all other retail channels and markets relevant to our product, including ecommerce. The FDA submission and clearance situation in the US has no bearing on how we go to market in countries such as India, where regulations are different and allow us to market our device as a “hearing aid”.

Finally, European requirements dictate that the device must have CE/MDR mark certification as a Class IIa medical device to be marketed under the hearing aid designation — our focus for 2022.

Unleashing the growth potential

With our improved product and focused execution of our go-to-market plan in India, I am confident that 2021 will be a successful year for Audientes to unleash our growth potential. Through important commercial partnerships we will be entering a new era.

I thank our shareholders for your continued trust and support in Audientes.

Steen Thygesen
CEO, Audientes A/S



Overcoming hearing loss with the world's first truly self-fitting hearing aid.

Unfolding the India market opportunity

Very soon we will be launching our affordable, self-fitting quality hearing aid in India, a market with an estimated 75 million adults suffering from disabling hearing loss.

For more than a year, the COVID-19 pandemic has put pressure on healthcare systems throughout the world and many people who needed, for example, a hearing aid simply were not able to visit a hearing clinic due to the potential risks to their health. Likewise, many people in remote areas of India (and the world) have never had access to quality audiologists, which stresses the need for more do-it-yourself healthcare solutions, such as ours, that more effectively serve the public.

India – one of the world’s fastest growing ecommerce markets

Throughout Q1 2021, we have focused on optimizing our go-to-market model to reflect the global ecommerce upswing trend. India is no exception with a current growth trajectory in ecommerce that is expected to surpass the US to become the largest ecommerce market in the world by 2034 in terms of revenue (source: India Brand Equity Foundation, ibef.org).

Our multipronged go-to-market strategy for India, combining specialty retail with ecommerce channels, means that we can reap the rewards from this seismic shift to and massive growth by ecommerce. India is now not only the world's 8th largest market by ecommerce retail sales figures, but also the 2nd largest ecommerce market by the sheer number of active consumers.

Today, with 329 million ecommerce buyers, representing a projected value in 2021 of USD 67.5 billion (source: eMarketer, Dec. 2020), India is the fastest growing ecommerce market in the world. The online market there is expanding at an annual rate of 22% and yet still only makes up 7% of total retail spend. With approximately 685 million Internet users in India today and an Internet penetration of just about 50%, there is ample room for continued growth and for India to remain the fastest growing market for the years to come.

In 2021, we expect ecommerce to account for approximately half of our product and accessory sales. Going forward, this channel will be pivotal for Audientes both in India and in other countries where we have a retail presence through ecommerce channels. Ecommerce transactions will be

made through our own webshop at audientes.com as well as through other retailers, such as Amazon, FlipKart and local healthcare and wellness-focused retailers in India that serve the rapidly growing market in ehealthcare (estimated at USD 16 billion by 2025). (Source: RedSeer Management Consulting)

Building multichannel distribution and retail capabilities

Our go-to-market plan is centered on two areas: our presence in the traditional retail market (where we partner with B2B actors such as distributors and retailers) where many potential customers go when they are looking for a hearing aid; and on ecommerce, which is growing rapidly in all of Audientes' key markets as a result of the COVID-19 pandemic.

The Audientes self-fitting hearing aid is ideal for online marketing and sales, and we are well-positioned to capitalize on the ecommerce trend. During the first quarter, we kicked off the implementation of a scalable, multi-currency, -country and -lingual omni-channel business platform to handle outbound (paid) and inbound (organic) marketing, as well as channel partner interaction and transactions from B2C sales.

With the exception of India and the US (where we will begin with both traditional retail sale and ecommerce from day one), our plan is to use ecommerce channels in order to help us learn, gain insights and become familiar with each market. Then, once we have increased our understanding of the local market mechanisms and consumer interest in our products, we will move further into these markets with distributors and retail outlets.

The key component in our launch strategy for the retail segment is commercial partnerships with regional distributors. This will ensure our presence at numerous sales outlets and enable us to educate staff about our hearing aids so they can better sell and service our products — before and after the sale.

Unfolding the India market opportunity, cont.

Testing completed in India

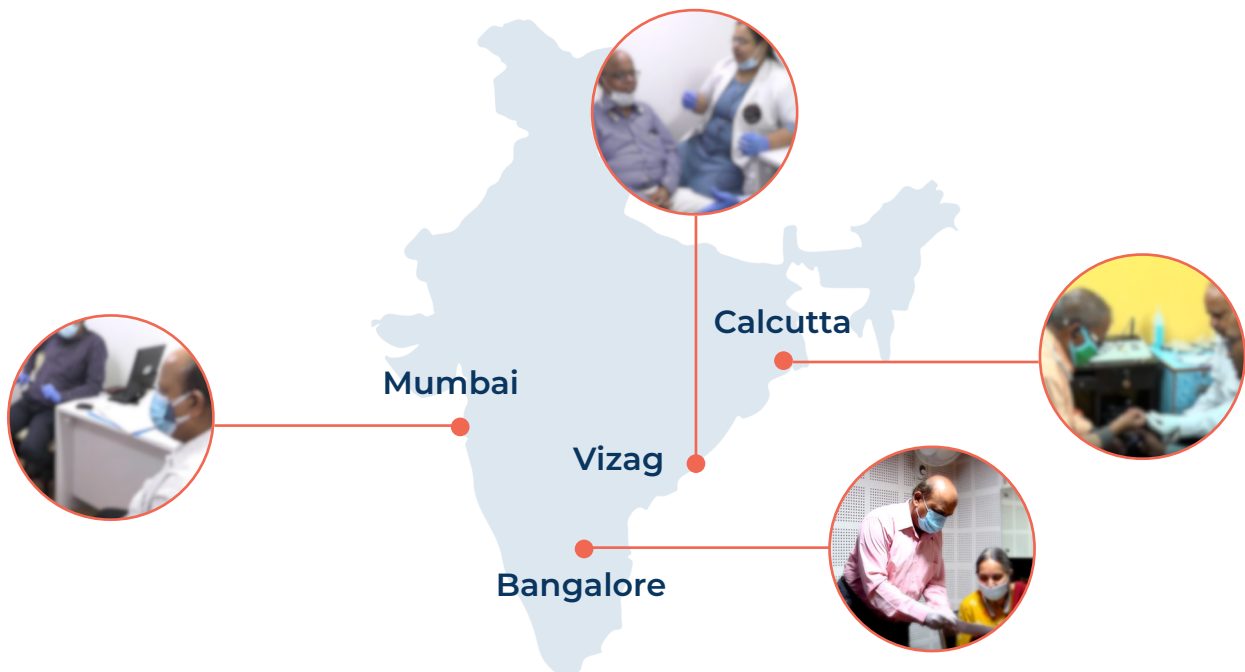
Audientes is very watchful of the COVID-19 situation in India with a focus on acting responsibly while simultaneously utilizing the market potential. Thus, it has been possible to complete local user tests in four major Indian cities — Calcutta, Vizag, Mumbai and Bangalore — in collaboration with local hearing clinics and supported by our Country Manager there.

The prototype development and testing project, which was co-funded by the Danish Market Development Fund, was completed in Q1 2021 and we collected important feedback from a test group of 37 people of varying ages and with different degrees of hearing loss, as well as a selection of hearing professionals. We asked for input on several topics, including device design, functionality and fit.



Raman Rao, Country Manager India, takes a user through the testing process.

User testing of the Audientes hearing aid in four major cities



Financial performance in Q1 2021

In Q1 2021, we continued to invest in product development, prototypes and field testing, business platform design and development, as well as manufacturing readiness, sales and marketing activities. Expenditures and losses in Q1 2021 are overall in line with plans and expectations for the investments made during the quarter. However, due to the prolonged COVID-19 lockdown, Audientes had less travel activity in Q1 than expected and travel expenses were postponed to later in the year. Audientes received TDKK 711 in subsidy from the Danish Market Development Fund for the test and prototype development project with focus on India, recorded as deferred income. Audientes has a robust financial position with cash at hand of TDKK 28,409 at end-Q1 2021.

Operating profit

Operating profit was TDKK -2,667 in Q1 2021 which is in line with expectations for the quarter. The figure continues to mask a transfer of travel costs to later in 2021. The remaining costs are in line with Management's expectations. Net loss for the quarter was TDKK -2,751.

The financial development in Q1 2021 continued to be characterized by the ongoing investments in the completion of our self-fitting hearing aid, complemented by the increasing costs related to our investments in ensuring manufacturing readiness and the implementation of go-to-market, business platform design and development, and online advertising.

Audientes received TDKK 711 in subsidy from the Danish Market Development Fund and has completed the project of testing and adapting the product through a series of prototype and test sessions in India. This subsidy figures under deferred income and will be recognized as sales commence and the corresponding development projects related to the Danish Market Development Fund grant are amortised and written down.

Gross profit in line with expectations

Sales of the first hearing aid devices are scheduled for Q3 2021. Thus, Audientes recorded no revenue in Q1 2021. Gross profit/loss for Q1 is calculated at TDKK -1,326 compared with TDKK -38 in Q1 2020. Gross profit/loss covers income received and costs of raw materials, direct labour, direct materials, and external costs.

Full-time and consultancy resources

Since Audientes' IPO on Nasdaq First North Growth Market Denmark in September 2020, we have increased our staff base in Denmark and in India, and we have a strong roster of expert consultants and partners working with us. In total, at end-Q1 2021, our staff comprised 8 full-time employees and one student helper, and we collaborated with a number of external consultants. Staff costs in Q1 2021 are calculated at TDKK -1,284, up from TDKK -5 in Q1 2020.

Disclaimer

Forward-looking statements, especially such relating to future sales and operating profit, are subject to risks and uncertainties. Various factors, many of which are outside Audientes' control, may cause the actual development of the company to differ materially from the expectations contained in this financial report.

Capitalization of development projects

During Q1 2021, Audientes continued the development of its hearing aid platform consisting of software and hardware technology that together create an innovative hearing aid solution. Additions thus totaled TDKK 1,050 in Q1 2021. The company's ongoing investments in development projects are expected to provide significant competitive advantages going forward. At the end of Q1 2021, TDKK 10,448 was capitalized under intangible assets /development projects in progress.

Strong liquidity

At end-Q1 2021, cash and cash equivalents amounted to TDKK 28,409 compared to TDKK 16 in Q1 2020.

Audientes has ample liquidity for the completion of its self-fitting hearing aid and the market launch from mid-2021.

Solid capital structure

Equity totaled TDKK 35,620 compared to TDKK 38,372 at 31 December 2020, and TDKK 3,878 at the end of Q1 2020. With total assets of TDKK 40,564 at end-Q1 2021, the solvency ratio was 87.8% compared to 50.3% on 31 March 2020.

Current liabilities other than provisions

Current liabilities other than provisions totaled TDKK 4,920 and mainly consist of payables such as payroll costs, income tax and subsidies from the Danish Market Development Fund not yet recognised as income.

Events after the balance sheet date

No events that might significantly affect the assessment of the company's financial position have occurred after the balance sheet date.

The Q1 report has not been audited.



Financial calendar

The company prepares and publishes a financial report at the end of each quarter. Upcoming reports are planned to be released as follows:

Date	Event
August 19, 2021	Half-year 2021 reporting
November 18, 2021	Q3 2021 reporting
March 24, 2022	Annual Report 2021
April 21, 2022	Annual General Meeting 2022

Further information

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Financial statements

Income statement

TDKK	Note	Q1 2021	Q1 2020	2020
Gross loss		-1,326	-38	-3,852
Staff costs	1	-1,284	-5	-1,696
Depreciation, amortisation and impairment losses		-57	0	-13
Operating loss		-2,667	-43	-5,561
Other financial income		3	0	1
Other financial expenses		-88	-9	-1,183
Loss before tax		-2,751	-53	-7
Tax on loss for the period		0	0	1,605
Loss for the period		-2,751	-53	-5,138

Balance sheet — assets

TDKK	Note	31.03.2021	31.03.2020	31.12.2020
Development projects in progress		10,448	7,626	9,398
Intangible assets	2	10,448	7,626	9,398
Other fixtures and fittings, tools and equipment		271	0	309
Property, plant and equipment		271	0	309
Deposits		67	22	65
Other financial assets		67	22	65
Fixed assets		10,786	7,648	9,772
Other receivables		312	6	1,428
Income tax receivable		407	34	407
Prepayments		650	0	224
Receivables		1,369	40	2,059
Cash		28,409	16	30,364
Current assets		29,778	57	32,423
Assets		40,564	7,705	42,195

Balance sheet — equity and liabilities

TDKK	Note	31.03.2021	31.03.2020	31.12.2020
Contributed capital		935	369	935
Reserve for development expenditure		6,035	4,670	6,035
Retained earnings		28,650	-1,160	31,402
Equity		35,620	3,878	38,372
Other payables		24	13	24
Non-current liabilities other than provisions		24	13	24
Bank loans		25	0	24
Trade payables		787	190	487
Other payables		751	81	939
Deferred income		3,356	2,349	2,349
Current liabilities other than provisions		4,920	2,620	3,799
Liabilities other than provisions		4,944	2,633	3,823
Equity and liabilities		40,564	7,705	42,195

Statement of changes in equity for Q1 2021

TDKK	Contributed capital	Share premium	Reserve for development costs	Retained earnings	Total
Equity beginning of period	935	0	6,035	31,402	38,372
Capital increase					
Transferred from share premium					
Equity costs					
Transferred to reserves			819	-819	
Loss for the period				-2,751	-2,751
Equity end of period	935	0	6,854	27,831	35,620

Cash flow statement for Q1 2021

TDKK	Note	Q1 2021	Q1 2020	2020
Operating profit/loss		-2,667	-43	-5,561
Amortisation, depreciation and impairment losses		57	0	13
Working capital changes	3	1,810	69	-386
Cash flow from ordinary operating activities		-799	25	-5,934
Financial income received		3	0	1
Financial expenses paid		-88	-9	-1,183
Taxes refunded/(paid)		0	0	38
Cash flows from operating activities		-884	-9	-7,079
Acquisition etc. of intangible assets		-1,050	-78	-1,849
Acquisition etc. of equipment		-19	0	-321
Changes in other financial assets		-1	0	-44
Cash flows from investing activities		-1,071	-78	-2,214
Free cash flows generated from operations and investments before financing		-1,955	-62	-9,293
Cash increase of capital		0	0	41,376
Costs incurred during change of contributed capital		0	0	-1,797
Cash flows from financing activities		0	0	39,579
Increase/decrease in cash and cash equivalents		-1,955	-62	30,286
Cash and cash equivalents beginning of year		30,364	78	78
Cash and cash equivalents end of period		28,409	16	30,364
Cash and cash equivalents at end of period are composed of:				
Cash		28,409	16	30,364
Cash and cash equivalents end of period		28,409	16	30,364

Notes

TDKK	Q1 2021	Q1 2020	2020
1. Staff costs			
Wages and salaries	1,518	0	2,441
Pension costs	105	0	78
Other social security costs	21	0	9
Other staff costs	57	5	81
	1,701	5	2,609
Staff costs classified as assets	-417	0	-913
	1,284	5	1,696
Average number of full-time employees	8	2	4
2. Intangible assets			
Cost beginning of year	9,398	7,549	7,549
Additions	1,050	78	1,849
Cost end of period	10,448	7,626	9,398
3. Changes in working capital			
Increase/decrease in receivables	689	0	-1,635
Increase/decrease in trade payables etc.	1,121	69	1,249
	1,810	69	-386



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