

Hearing is believing

Exciting new technology is set to catapult Dynamic Hearing into the European market. **By Craig Roberts.**

A small Melbourne technology company with the same pedigree as the hearing-aid maker Cochlear has taken its first small step to commercialisation, profitability and a public listing. In May, Dynamic Hearing, a spin-off from the research group that spawned Cochlear, signed its first big licensing deal with a European manufacturer. Its strategy to secure and structure the deal leaves it well positioned to expand with this and other international licensing partners.

Dynamic Hearing's product is software trademarked ADRO (the acronym for a process termed "adaptive dynamic range optimisation"), which is a new way of digitally processing sound to amplify, without the distortion that occurs in conventional hearing aids, the range of noises that hearing-impaired people often cannot decipher. The science was developed over five years at Melbourne University's Bionic Ear Institute and the Co-operative Research Centre (CRC) for Cochlear Implant Hearing Aid Innovation.

The international licensing agreement is with Germany's second largest hearing-aid manufacturer, Interton Hoergeraete. Dynamic Hearing says the deal could produce \$1 million of royalty revenue in the first year. In 2001, Elaine Saunders was appointed chief executive to lead the commercialisation of the technology.

Her first achievement was to win an entrepreneurs' competition run by the Melbourne Business School. This attracted the interest of venture-capital investors Nanyang Ventures and Rothschild BioSciences Managers (now GBS Venture Partners), which each put in \$2.5 million in two separate funding rounds for a 35.05% share of the company.

The commercial arm of the CRC, HearWorks, owns 14.9% of Dynamic Hearing and the remaining 15% is tied up in the company's employee share option plan. With the cash to take the technology to market, Saunders embarked on a deliberate and well-structured path towards commercialisation.

Dynamic Hearing's main customers are hearing-aid manufacturers, which tend to be big, global companies with headquarters in Europe or the United States. Early in 2003, Saunders and her chief scientist, Peter Blamey, started visiting the leading manufacturers to discuss the potential for licensing ADRO.



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Focused on innovation

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"We deliberately focused on companies that were innovative, that were really focused on accelerating their growth, and who were using, or looking at using, an open platform in their hearing aids," Saunders says. (An open platform means that manufacturers can install the ADRO software on their existing hardware, rather than build new hardware to incorporate the software.)

This naturally led to discussions with second-tier hearing aid manufacturers (those ranked about sixth to 15th in size in the world).

Stephan Sagolla is the executive manager of Interton (which is about the seventh biggest and one of the fastest growing hearing-aid companies). He says the biggest manufacturers, such as world-leader Siemens (which has about 20% of the global \$US3 billion hearing-aid market), tend to use their own research and development departments.

It is the smaller companies that are willing to look outside for new technology. Dynamic Hearing first licensed ADRO to a French manufacturer in April 2003, and made about \$500,000 in royalty revenue. At the time, Interton was also speaking to that company about a possible acquisition and, when the French business failed, Interton and Dynamic Hearing kept talking.

Sagolla says: "We did some deeper research on what the ADRO technology can do, and we found that it is a unique technology that no one else has. We were wondering why no one else had picked it up." Interton signed a non-exclusive three-year licence to build the ADRO software into its high-end hearing aids. "We count on it to be close to 50% of our business within the next two years," Interton sells about 200,000 hearing aids a year and has annual revenue of about €100 million.

The non-exclusive nature of the deal is a bonus for both partners. The fact that a big international manufacturer has taken on the technology gives Dynamic Hearing more weight in negotiating with other manufacturers, and it does not limit the company to a single distributor.

Although the advantage for Interton in a non-exclusive deal is less obvious, Sagolla says it was cheaper than buying exclusive rights, and that, as other big manufacturers license the technology, the size of the market will increase for all competitors. Saunders says: "If a big company like Siemens promotes the technology, it is going to boost our business as well." ●

SOUND BUSINESS IDEAS

1 Tailor the science to suit the market.

To attract global manufacturers, Dynamic Hearing spent additional time and money developing specific add-ons for its unique hearing-aid sound processing software.

2 Non-exclusive deals that allow licensees to tailor a core system to their own needs will increase the breadth of the market for the technology.

3 Choose carefully the companies with which to do licence deals. Dynamic Hearing deliberately went for smaller, innovative manufacturers that were keen to expand and willing to try new, externally developed technology.