

William Demant moves into fast-growing cochlear implant sector



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William Demant's \$74m acquisition of Neurelec, a French cochlear implant specialist, has shown the hearing aid developer's faith in diversification as a business strategy. Added to the traditional hearing aids and bone-anchored hearing devices it already sells, the Danish group will benefit from Neurelec's technology to become the only company in the world that covers all three product categories.

Neurelec is a relatively small player as cochlear implant developers go, but with the heft of William Demant behind it its technology could expand greatly. William Demant stole a quarter of the global bone-anchored hearing aid market from Cochlear in just two and a half years, UBS analysts say; if it can even come close to repeating the trick with the much larger cochlear implant market - \$960m worldwide - the Neurelec buy will have been a wise one indeed.

Number four

The key to expansion is, as ever, US approval of the devices. Three companies sell cochlear implants in the US, and it is no coincidence that they are the three largest in terms of global market share: Cochlear with around 65%, followed by Med-El and Sonova, each in the high teens, according to Bernstein analyst Lisa Bedell Clive. UBS analysts put Neurelec's current market share at around 2%, though they point out that the French company has around 20% of its home market.

Neurelec sells two implants, Digisonic SP and Digisonic SP EVO, as well as two processors, Saphyr SP and Saphyr CX, with most of its revenue coming from Europe and Africa. It also has DIGI SPK, a processor designed for use in babies and infants. Gaining FDA approval for these will take some time, so until then William Demant will have to content itself with improving distribution in Europe and other markets through established channels.

It will also be able to speed advances in the technology. Analysts at UBS suggest that it will be able to improve processor technology fairly quickly, with a next-generation implant appearing in the medium term.

Lower multiple

Cochlear implants might be the next big thing in hearing technology but buyers' willingness to spend on them appears to have shrunk. The last acquisition of a cochlear implant specialist was that of Advanced Bionics by Sonova in November 2009. The price was \$489m, more than four times Advanced Bionics' 2008 sales of \$117m. By contrast, Neurelec's sales were \$24m last year, putting the acquisition multiple at just over 3x.

The cochlear implant space is worth just shy of \$1bn and is growing at double-digit rates, but competition is stiffer here than in other hearing aid sectors and the incumbents are relatively entrenched. Cochlear's lead seems unassailable at present, and it would make little sense for the company to diversify away from its high-margin product offering. It will be a while before William Demant makes its mark.

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