

Siemens IPO could create third-largest hearing aid company



[Elizabeth Cairns](#)

The rationale for Siemens divesting its hearing aids unit is clear: as the only one of Siemens' businesses to be consumer-focused it is an outlier. With a trade sale unlikely to get off the ground – antitrust laws would almost certainly preclude one of the other hearing aid players buying it – an IPO is a smart choice.

But Siemens' share of Western hearing aid markets is shrinking, and with just a handful of companies active in this space it is worth considering how an independent company will stack up against the established competition (see tables below).

Third place

Siemens does not disclose the sales and profits the hearing aid business brings in, but Bernstein analyst Lisa Bedell Clive estimates its revenue at between \$850m and \$1bn annually. According to *EvaluateMedTech's* consensus data, this would put an independent Siemens hearing aid business in third place in the market, above GN Store Nord and Cochlear.

Hearing aid market - current players			
	Global sales* (\$m)		
Company	2013	2020e	CAGR
Sonova	1,914	2,876	+6%
William Demant	1,416	2,048	+5%
GN Store Nord (GN ReSound)	648	1,010	+7%
Cochlear	86	126	+6%

*Excludes cochlear implants

Ms Bedell Clive estimates that the unit could be worth upwards of \$2.5bn, citing an EV/sales multiple of 3x and using Siemens' own estimates of EBIT margin: 17-22%.

Whether this target can be reached is anyone's guess. The medtech IPO situation has fluctuated wildly in recent weeks, with both Lombard Medical Technologies and CardioDx cancelling then going ahead with Nasdaq floats, for example ([Lombard flees to US after all, April 25, 2014](#)).

It is incontrovertible, though, that the value of the Siemens hearing aid division is not currently being recognised. An IPO would release the value of this relatively high-margin business to its investors. Alternatively, as *EP Vantage* has previously suggested, the tax-advantageous strategy of a partial IPO and carve-out to existing investors followed by a full float later could be the way to go ([Siemens should listen to calls for hearing aids sale, September 20, 2013](#)).

Competition

However successful the public offering, it is likely that the new company's future will depend on customers in Asia. Siemens' hearing aid business has dual headquarters in Germany and Singapore, reflecting its loss of share in Europe and the US. Bernstein analysts state that Siemens' share of the UK NHS hearing aid market declined from 45% in 2009 to 17% last year. Sales to the US Veterans' Administration described a similar path, falling from 10% in 2009 to 7% in 2013.

There is therefore an outside chance that an Asia-based tech company such as Samsung might buy Siemens'

hearing aid business to enter a new space. It is highly doubtful that Sonova, William Demant or one of the others would be able to make a purchase work - in 2007, Sonova's bid for GN Store Nord's hearing aid division, GN ReSound, was denied by competition watchdogs. This decision was subsequently overturned, but by then the deal had fallen apart.

The danger of antitrust issues is real - that said, it does not seem to have put Zimmer off a huge merger in a similarly consolidated arena ([Zimmer and Biomet hook up for second orthopaedics megamerger](#), April 24, 2014). And a transaction between the smaller players in the market is less likely to face regulatory action, and cannot be ruled out.

Still, an IPO is the most likely outcome. Siemens believes that an independent company would be more able to focus on building the business, perhaps arresting the decline in established markets through technological innovation. It will need a successful offering to fund such advances.

To contact the writer of this story email Elizabeth Cairns in London at elizabethc@epvantage.com or follow [@LizEPVantage](#) on Twitter

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Evaluate HQ
[44-\(0\)20-7377-0800](tel:44-(0)20-7377-0800)

Evaluate Americas
[+1-617-573-9450](tel:+1-617-573-9450)

Evaluate APAC
[+81-\(0\)80-1164-4754](tel:+81-(0)80-1164-4754)

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