



Company: INTRICON
Conference Title: 2018 FIRST-QUARTER RESULTS
Conference ID: 3665961
Moderator: SCOTT LONGVAL
Date: MAY 7, 2018

Operator: Please stand by. Good day everyone and welcome to the IntriCon First Quarter 2018 Results conference call. Today's conference is being recorded. And at this time I would like to turn the conference over to Scott Longval, Chief Financial Officer. Please go ahead, sir.

Scott Longval: Thank you, operator. Joining me on today's call is Mark Gorder, IntriCon's CEO. Before we begin I'd like to preface our remarks with the customary Safe Harbor statement.

Today's conference call contains certain forward-looking statements. These statements are based on current estimates and assumptions of IntriCon's management. They are subject to uncertainty and changes in circumstances. Given these uncertainties you should not place undue reliance on these forward-looking statements. Actual results may vary materially from the expectations contained in today's call.

Important factors that could cause such differences include, among others, those set forth under the headings risk factors and management discussion and analysis of financial condition and results of operations in our 10K filing for the year ended December 31, 2017.

With that I'd like to introduce Mark for a strategic look at our IntriCon's first quarter.

Mark Gorder: Thank you, Scott. And thank you everyone for joining us today. I would like to begin by reviewing key highlights and results for the first quarter. After that Scott will cover the financials in more detail and then we'll take your questions.



By this time most of you have had a chance to review our first quarter press release. The Company reported record net sales of \$25.4 million; up 19.6% from \$21.2 million in the prior year period. Gains – IntriCon's largest medical customer and growth in the value-based hearing health direct-to-end-consumer and indirect-to-end-consumer businesses drove strong top and bottom line performance.

In conjunction with the revenue growth we expanded our manufacturing footprint and made progress on the value-based hearing health technology front. Looking at our three businesses our medical business increased 30.8% in the 2018 first quarter from the prior year period. The gain was primarily driven by the ongoing production of Medtronic's MiniMed wireless continuous glucose monitoring systems and related accessories. That rose 42.9% over the 2017 first quarter.

We are well positioned with Medtronic for 2018, providing key system components including the CGM Systems, sensor assembly and related accessories. We anticipate system demand to further increase throughout 2018.

Over the last few quarters key medical customers have invested in or made commitments to invest in 4.5 million in capital equipment. In response to these commitments and our rapid medical growth we are expanding our manufacturing footprint. We have leased an additional 37,000 square feet of manufacturing floor space near our existing locations in Minnesota to accommodate robotic assembly of medical components and systems.

In conjunction with the added space we are also increasing our molding capacity. During the last two quarters the company added six presses and has another 12 presses on order for delivery throughout 2018. The expansion of our robotic and molding capacity not only positions us to meet



current demand but enables us to pursue new medical opportunities that would benefit from our core competencies.

We expect to be fully operational in the additional space by mid-2018.

Turning to hearing health; to provide greater transparency within our hearing health businesses we started providing more detail of the quarterly revenue than we have historically. Specifically we have broken out our three distinct revenue streams, value based direct-to-end-consumer, value based indirect-to-end-consumer and legacy OEM. Value based direct-to-end-consumer is our hearing health express business that sells products directly to the end-consumer.

In contrast the value based indirect-to-end-consumer revenue is from our customers who sell the end-consumer through the non-traditional models such as OTC.

Lastly legacy OEM revenue is product being sold into the traditional hearing health model. We believe this breakout will provide greater visibility to the progress we are making in our stated goal to drive growth in the value hearing health space. Sales for the total hearing health business were flat from the prior year first quarter. Although total hearing health sales were flat, both the value based direct-to-end-consumer and indirect-to-consumer business posted strong sales growth over the prior year first quarter of 26.1% and 102.5% respectively.

As anticipated these gains were offset by the declining conventional sales channel. Please note that in the body of today's first quarter press release we incorrectly listed the indirect-to-end-consumer increase as 251.7% instead of 102.5%.

However, that figure is correct in press releases, the Company financial tables and our FCC filing. We continue to make progress integrating and optimizing HHE. During the first quarter the



Company expanded its sales infrastructure by hiring six inside sales people. In addition new strategic relationships with third party groups were consummated. These efforts helped drive key first quarter metrics over the sequential quarter, including a 21% increase in net new hearing aid customers and a 13% in hearing aid orders.

IntriCon has delivered sequential growth in net new customers in hearing aid orders at HHE each quarter since the company took its initial equity position in October 2016, a trend that we anticipate continuing throughout 2018. Although we had sequential growth in net new customer and orders first quarter HHE net sales were flat primarily because the majority of the order increases were made by new customers whom we typically experience higher return rates than legacy customers.

As we continue to target new customers to build our existing customer base we will see higher than average return rates. We expect this to taper as we build our legacy customer base and introduce new wireless technology and fitting software into the HHE channel. On the technology front during the quarter we continued to build our technology portfolio, securing 49% ownership in Soundperience, a German-based provider of key self-fitting hearing technology.

Soundperience has designed the first psychoacoustic method of analyzing peripheral hearing and central hearing processing branded as the Sentibo Smart Brain System. The sophisticated self-fitting hearing aid and brain training software is being used in the German market today most notably through IntriCon's Signison joint venture with Soundperience.

In addition to Soundperience technology, the company is poised to introduce the industry's most power-efficient wireless audio streaming hearing aids into the market, IntriCon's Lumen 155 product family, which incorporates NXP Semiconductor's NxH2003 Bluetooth Low Energy audio streaming system-on-a-chip. By integrating NXP's NxH2003 to IntriCon's Lumen 155 product



family, IntriCon can provide outcome-based features, connecting our hearing aids with various wireless accessories. The Lumen 155 can stream wireless audio to IntriCon's wireless accessories such as remote microphones, consuming only 2.6 mA current at 1.2 volts, which is industry leading.

Having access to wireless technologies like the NxH2003 and Sentibo Smart Brain self-fitting technology are a critical step in creating our high-quality low-cost hearing health care ecosystem. We intend to launch the Lumen 155 coupled with the remote microphone into our direct-to-consumer and indirect-to-consumer channels in the current quarter. Additionally we intend to integrate this with our Sentibo Smart Brain self-fitting software; which is designed to improve both channel productivity and the quality of first-time fittings, resulting in lower prices, greater access and increased customer satisfaction.

Shifting to public policy, progress is being made on the Hearing Aid Act of 2017 which enables adults with mild to moderate hearing loss to access OTC hearing aids without being seen by a hearing care professional. While it could take up to three years from when the bill was signed in August 2017 for this legislation to move through the necessary government channels, as previously stated, based on discussions we have had with Senator Warren's office over the last several months, we believe a draft regulation will be issued for comments in mid-2018.

Furthermore, we are in discussions with the FDA regarding our self-fitting software and the benefits it can provide in creating our high-quality, low-cost hearing health care ecosystem. And thus reducing cost and other barriers of adoption in the U.S. market.

Now I'd like to turn the call over to Scott.



Scott Longval: Thank you, Mark. I'll begin by reviewing our first quarter financial results in more detail.

For the 2018 first quarter, we reported net sales of \$25.4 million, up 19.6% from \$21.2 million in the prior year period. The increase was primarily due to the year-over-year revenue gains from IntriCon's largest medical customer and growth in the value-based hearing health direct-to-end-consumer and indirect-to-end-consumer businesses.

As Mark mentioned, we refined our strategy within the value-based hearing health market and we've experienced a lot of exciting growth. To better focus our resources on the value-based hearing health opportunities, we are working on a plan to narrow the focus of our U.K. sales and distribution teams on opportunities that support this strategic goal. You can expect updates on this plan in future communications.

IntriCon posted net income attributable to shareholders of \$769,000 or \$0.10 per diluted share versus a net loss attributed to shareholders of \$270,000 or \$0.04 loss per diluted share for the 2017 first quarter.

First quarter gross profit margins were 33.2%, up significantly from 27.5% in the first year first – prior year first quarter. The increase primarily stemmed from greater volume. We expect this trend to continue throughout 2018. Operating expenses for the first quarter were \$7.1 million compared to \$6 million in the prior year period. The increase was largely due to increased advertising investments at HHE and other support costs related to key initiatives to drive the business' growth.

Turning to other highlights, this afternoon we filed a shelf registration and when it is declared effective by the SEC, will give us the option to see up to 30 million of our securities covered in the registration statement. The statement replaces our shelf registration statement that expired during the first quarter. We have no immediate plans to raise capital under the shelf registration



statement but as a matter of strong corporate governance, and allows us to be more agile and support our rapidly growing business needs, we believe it's prudent to have the offering available to the Company on an as-needed basis.

Lastly in terms of guidance, based on the information currently available we anticipate the 2018 second quarter net sales to range between \$25.5 million and \$26.5 million. For the year we're increasing our sales estimates and we now anticipate sales to range between \$105 million to \$108 million.

Now I'd like to turn the call back over to the operator so we can take your questions.

Operation: Certainly. If you would like to signal for a question at this time please do so by pressing Star, 1 on your telephone keypad. If you are using a speakerphone, please ensure that your mute function has been turned off to allow your signal to reach our equipment. Again that's Star, 1 for questions.

At this time our first question will come from Andrew D'Silva with B. Riley FBR. Please go ahead, sir.

Andrew D'Silva: Hey good afternoon. Thanks for taking my questions. And really congrats on the progress as well. My first question is going to be related to diabetes revenue. As far as that goes are most of the capacity issues that we previously discussed behind us at this time? And then is growth only being driven by MiniMed? Or is the new Guardian Connect offering starting to do anything at this point?



And the only reason I ask that is because the expanded market opportunity with Guardian in to type 2 diabetes obviously is a much larger market opportunity for you or your components I would assume than type 1.

Scott Longval: Great. Thanks Andrew for the questions. This is Scott, appreciate it. So we are ((inaudible)) in earnest to get through and make sure we have the infrastructure to meet all of our customers' needs specifically in the diabetes space. So we think as of the end of the first quarter we are on pace now and have the capacity or the plans to have the capacity in place to meet all of their needs.

Secondly as it relates to the specific products well I can't get into great detail. You did - noted that the Guardian Connect product was approved by the FDA in the May or excuse me, in March. And I know Medtronic has high hopes for that product and envision that to be a significant driver as part of their overall diabetes offerings. So I can't really get into the specifics on the makeup of that revenue. All I can tell you is I know they're excited about that product. I know that they think that's going to be a great growth driver for them and not only in 2018 but in the years to come.

Andrew D'Silva: ((Inaudible)) discuss it but at least it's fair to assume that once that starts rolling out it should be, at worst, meaningfully beneficial to you; at best substantially meaningfully beneficial to you.

Scott Longval: Absolutely.

Andrew D'Silva: Okay. And do you think these margins that you saw in the medical segment this quarter are sustainable as we go throughout the year? I mean, you came in way ahead of what we were thinking about for the quarter. Were there any, you know, onetime benefits that we should take



into account here? Or was the 33% gross margin rating really something that we should expect as being achievable going forward?

Scott Longval: Well I think, you know, the increase in the gross margin is something we've been talking about for quite some time. And we felt like we had the ability to really leverage our capacity. And I think you saw that in the significant jump. Clearly we're adding some cost to support the future growth not only in '18 but to position ourselves for beyond.

We've brought on the new manufacturing facility. We're working very hard to get that up and running so there will be some added cost as part of that process that we'll incur in the second quarter. But, you know, on balance we look at our gross margin makeup in that kind of the low to mid-30s for 2018 as very achievable.

Andrew D'Silva: Okay and last question as it relates to the new manufacturing facility. In your comments you highlighted that you're expanding your sales initiatives for both the hearing health side of the business as well as the medical business. Is the expansion of the 37,000 square foot facility primarily just a situation where you need extra capacity to service existing customers? Or is this a situation where now you feel very comfortable with the larger customers that you have and you're able to start looking at new customers? And you now have the ability to actually service them with a new manufacturing facility?

Mark Gorder: Andrew, this is Mark. And I think, you know, you hit the nail on the head. We feel very confident now that we have this rapid growth from our largest customer and others that it's time to start investing and developing new relationships. And we have not been in that position in the past few years. So we anticipate starting to add manpower to be able to get into the marketplace and develop new relationships as well as some additional engineering capacity to start to do extra bidding and concepting (sic).



And we've not been in that position before so this is a great opportunity now to get more aggressive in that sense. However, as you know being in an FDA space, there is nothing that will happen quickly there. So even though we decide that we're going to start increasing the marketing and engineering effort it's at least a two to three year cycle on most of these FDA programs, in some cases ((inaudible)) longer you hold off doing anything, the longer you wait to start driving revenue.

The new facility is scaled to basically handle our existing needs as we see it forming over the next two to three years. And anything we brought in beyond that we would have to probably add additional capacity. So that current facility is really sized for the opportunities we already have in place. I don't know, does that answer your question?

Andrew D'Silva: That does answer my question. That makes a lot of sense. So the opportunity is opening up for you from a comfort standpoint where you can feel comfortable actually targeting new customers. But as you – or if you do get new customers you might actually have to add some more equipment to existing facilities.

Mark Gorder: Exactly.

Andrew D'Silva: Okay, perfect. Thank you for the color and good luck going forward this year.

Scott Longval: Thanks Andrew.

Operator: Thank you. Again that's Star, 1 if you would like to signal for a question. We'll hear next from Jonathan Block with Stifel. Please go ahead, sir.



Jonathan Block: Great, thanks guys. And good afternoon. Maybe two or three for me. Mark, you know, certainly helpful breakout on the hearing revenue. Maybe if you could talk about where you see the legacy hearing revenues bottom? And the second part to that same question would just be, Scott, at a high level could you ascribe, you know, maybe just rough gross margins to the three different hearing businesses? You know, I believe clearly the direct would be the highest but wonder if you could give us sort of the magnitude of the delta between the three.

Mark Gorder: Jonathan I'll take the first one then let Scott step in on those margins. As you mentioned, you know, we've broken it into three categories which we think are meaningful. And we talked about this in the past because we've been investing and putting the footprint in to be able to grow this new value-based hearing health business. At the same time we knew that the legacy business selling components and systems to the OEM manufacturers may be mainly the oligopoly was going to be in decline.

And so I always liken this to changing the, you know, we're on the freeway as a public company going about 60, 70 miles an hour and we've got to change the tire on the car while we're in motion. So it's kind of what we were doing to transition from the OEM business to the direct-to-consumer business. And in that direct-to-consumer business we have both our HHE channel and then we sell technology and systems to all the other direct-to-consumer players like MDHearing, Eargo to name a couple, firstSTREET. And we think that's in our best interest because we can grow the pie faster by not only supplying ourselves but supplying them in a way that doesn't hurt our efforts in the direct-to-consumer channel.

Relative to the size of the legacy business we see that continuing to decline. I think at some point it kind of hits a plateau and maybe I'll leave it to Scott to maybe give an indication of what we think that plateau is. And – but we definitely think it's going to hit a plateau probably this year. And probably won't decline much farther than what it is over the next few years.



Scott, if you want to...

Scott Longval: Thanks Mark. In regards to the gross margin makeup between those three different businesses, as you noted the direct-to-end-consumer business generates the highest gross margins, roughly between 72% and 75%. In that indirect-end-to-consumer, roughly 45% to 50% and then on that legacy OEM business significantly less and kind of that 35% range. So as, you know, the strategy moving forward, moving away from the legacy OEM into kind of the higher-value indirect-to-end-consumer and direct-to-end-consumer will warrant higher gross margins as well.

And to Mark's last comment in terms of that overall legacy revenue where we see that plateauing you'll see that in the first quarter we did roughly about \$3.8 million. I'm thinking by 2019 we're looking at that number could be, you know, closer to maybe \$2.5 to \$2 million a quarter. But that would obviously be more than offset by the gains that we're anticipating from those other two revenue segments.

Jonathan Block: Got it, got it, very helpful. And then to your point also, more than offset due to the favorable margin profile of those other two businesses as well. Okay very helpful. I appreciate that. And then just, you know, to stay on the HHE side of the business it seems like you started to get maybe a little more aggressive.

You mentioned the addition of six sales reps. You also talked about consummating those strategic relationships. Any more color you can give there? And then, you know, are there sort of numbers that you can put around in terms of what that right rep count might be longer term?



Mark Gorder: Well we're still probably hard to give you that number for the right rep count yet because we're still trying to sort through exactly what our mix ought to be for advertising and which target customers are we targeting. We do this very – we're very data-oriented so we're doing a lot of design of experiments to determine how to optimize our ad spend. And that will largely dictate how many call center people we need as the more we spend on advertising the more call center people we're going to need.

And we have not gotten overly aggressive yet on the ad spend as we're trying to work through a few issues to optimize the approach. But I think you'll see us get more aggressive in the fourth quarter of this year relative to the advertising spend. And at that point we would probably look to hire more sales rep people in the call center. Exactly what that number is I hate to give it yet, but we definitely – you will see us get more aggressive in the fourth quarter.

Jonathan Block: Okay. And the very last one for me I promise I just, you know, it's funny you sort of mentioned a lot of good things going on in medical and many presses being put in. And when you sit behind a computer screen for most of the day it seems like a very easy thing. But clearly it's not.

So Mark, maybe you can talk about you've been adding a lot of capacity I believe over the past 6 to 12 months. Just from an operational standpoint how do you feel like the company has been handling that? And, you know, do you feel good about getting fully operational? I believe you stopped to mid-2018. Thanks for your time guys.

Mark Gorder: Thank you Jonathan, good question. We have a tremendously capable operations team. And if you were probably to list our most significant skill set it's our ability to perform from the operations standpoint. And build capacity and produce high-quality products. And the team has



done a phenomenal job. The pressure has been significant as Medtronic is; I think they've announced that they're doubling their requirements for this year.

And then I think they're doubling it again for next year. So the growth is very large there but we're handling it well. We are on daily calls with Medtronic. We work very closely with them as a team. And I think we're very comfortable with how we're progressing. The new facility – we anticipate being in there in June to start actually putting in the equipment that we have ordered. Right now the leasehold improvements are going in over there.

But by June we'll be able to move in and start putting all the equipment in place. And I think we expect to have some operational revenue coming out of that plant probably by the end of that quarter, towards the early part of the fourth quarter. So all in all I think we're doing pretty well.

Jonathan Block: Thanks guys.

Operator: Thank you. We'll go next to Scott Billeadeau with Walrus Partners. Please go ahead.

Scott Billeadeau: Hello guys. Most of my questions were answered. But I'm wondering if you could give a little detail certainly on the capacity that you're expanding. You know, I mean you've talked about some molding capacity, some, you know, assembly new – the new space and that you got \$5.5 million. Is that from one customer or a couple of customers combined? Maybe give us a little sense on where that is.

When do you expect to start producing out of that? And when do you – do you have to start selling it before you can start, you know, manufacturing out of there? Maybe give us a little update there.



Scott Longval: This is Scott. Thanks, good question Scott. So the \$4.5 million is capital that's been coming in from several different customers, not any one customer. Because we're seeing a lot of activity in this medical space. And as we noted in the press release, it's not just molding capacity. But a lot of this is focused on robotic assembly and system assembly, very value-added types of processes.

So we're going through the process as Mark just outlined of outfitting the new space. We're going to have a lot of these presses over the next couple of quarters come in and automation systems come in into the new facility. And, you know, we believe starting by somewhere in the – by closer to the middle of the third quarter we're actually going to be recognizing revenue coming out of that new facility. Does that answer your question?

Scott Billeadeau: Yes. No that, that's...

(Crosstalk)

Mark Gorder: Yes, I was going to add a little more color to that Scott. We have – in Minnesota we've got basically three manufacturing plants. One has been focused mainly on medical molding and assembly. And the other one here was focused on microelectronics. But with the huge demand from these – all these customers we've decided to break out all the robotic assembly and put it into one facility.

So the facility that's being added is going to house all of our systems automation and robotic assembly for the medical business. And the molding – that clears up room at the molding plant over at Vadnais Heights to put in all these presses. So it's a kind of a major reallocation as we move the automation systems over to the new facility plus add more there. And then we're backfilling in there with a lot of molding presses into the existing facility.



So all the demand on all three plants has increased significantly. So we're going to do more microelectronics here in Arden Hills, more molding in Vadnais Heights and more robotic assembly in the new Arden Hills facility.

Scott Billeadeau: Great.

Mark Gorder: Kind of gives you some color.

Scott Billeadeau: And with that, is there anything related to, you know, regulatory approvals or updates that you need? I mean if you're doing something that's FDA approved do you have to then get another blessing if you move some part of it to a different plant? Any issues there at all or?

Mark Gorder: You're absolutely right. That all has to be done. We don't anticipate any issues. We are working diligently with our key customers to make sure that all those FDA approvals are completed in a timely manner. And we don't think that that will have any impact on our ability to execute for the rest of the year. So we're very comfortable with where we're at there.

Scott Billeadeau: Great. All right great, that's all I had. Appreciate it guys. Good quarter.

Scott Longval: Thank you Scott, appreciate it.

Operator: Thank you. As a final reminder that's Star, 1 for any questions. At this time we'll go next to Josh Goldberg with the G2. Please go ahead.

Josh Goldberg: Hey guys. Just following up on some of the questions so far if it's okay. You broke out the diabetes and other this time. I think it was the first time I saw that. For just historical



measures, I assume that the non-diabetes has been roughly flat to down the last couple quarters?

Mark Gorder: That's correct.

Josh Goldberg: Okay. And regarding the hearing health business, the direct-to-consumer and indirect-to-consumer showing better trends, last quarter you guys had a 6% sequential increase in hearing aid orders. This year – this quarter it went up to 13%. I realize that some of them are new orders but I would assume that, you know, based on what we're seeing regulatory-wise and market-wise that the hearing health segment should have pretty strong growth this year on the direct-to-consumer and indirect-to-consumer side.

I know in the first quarter it was modest growth on a year-over-year basis. Do we expect that to kind of ramp here as the back half of the year for that segment?

Mark Gorder: One of the prior callers had asked me about that. We intend to get more aggressive on advertising spend but probably not until about the fourth quarters. Because we don't want to get a – it's very important that you have a good balance between customer care and lead generation. And if you get too far ahead of yourself you could create a lot of problems and create a bad consumer experience.

So we're very carefully trying to go forward and optimize our process. And as we get more comfortable with that we're going to get more aggressive on advertising. And our anticipated plan now is that in the fourth quarter we're going to take another step function in advertising. And then you'll see probably the commensurate increase in lead generation of new hearing aid orders by the end of the year and going into 2019.



So that's how we envision it at this time.

Josh Goldberg: Okay. And Mark since you have a background on that space, I mean some of the valuations that we're getting in just that segment alone, you know, I know some private companies are getting valuations in hundreds of millions of dollars. Maybe talk a little bit about that for some new investors here.

Mark Gorder: Well it's – you raise an interesting point. When you think about – our model is direct from the manufacturer to the consumer. And in the indirect – in the other – a lot of the other players that are raising capital don't have the infrastructure in place that we have in terms of manufacturing capacity and footprint from Minnesota all the way to Asia.

In addition the technology portfolio we've developed is critical in building an ecosystem of care that as we anticipate the OTC legislation being effected or implemented later this year or early next year, any – these players that are raising all this money still don't have some of those capabilities that we've already put in place.

So we – our belief is that we're a leader in positioning ourselves for this emerging space in OTC because we've got the technology portfolio and the manufacturing footprint already in place plus a lot of work we're doing on optimizing our channel strategy. So I think that gives us a pretty good foothold to compete with anybody. And we should get recognition for the value that we've created there as we go forward because we're in a good position to drive revenue growth in that space, to your point.

Josh Goldberg: Okay, great. Just two more for me. I guess first, you know, I think going into the year I think you talked about how you expected that every quarter, sequentially, you should expect to grow. And obviously you got off to a great start in March. Is there any reason to believe that that



has changed? Based on your forecast it seemed like you should grow every quarter this year with probably some additional profit every quarter as well.

Mark Gorder: Yes, we – we agree. That should be the case. And a good steady trend until the fourth quarter and then we anticipate that we're going to step on the gas a little bit.

Josh Goldberg: Ratchet it up, okay. And just regarding the relationship with your biggest customer. I mean I know for a while they've been supply-constrained. And do you have any sense of where you are relative to sort of where they want to be in terms of supply? Have you hit the, you know, the comfort zone where they – they're matching demand with supply right now? Or are they still supply constrained going forward? Thanks so much.

Scott Longval: Yes, thanks Josh for the call. We really can't comment specifically on their capacity. All I can tell you is I know that we're doing everything to be prepared to meet their expectations for growth.

Josh Goldberg: Just said differently, if you can just hear me. Would it be fair to say that you exited on a weekly run rate with them faster than what you entered the quarter with?

Scott Longval: Yes, I would say broadly that our revenue as we've kind of laid out in our general forecast for 2018 of sequential growth quarter-over-quarter, that we're trending in that direction.

Josh Goldberg: Okay, great. Thanks so much.

Operator: Thank you. Our next question will come from Richard Ryan with Dougherty. Please go ahead.



Richard Ryan: Thank you. I got on the call late guys; sorry if this is a repeat. But does United and NHS fit into the new – is that the legacy bucket in the hearing health – that breakout now?

Scott Longval: So our direct-to-insurance business falls into the value-based indirect-to-end-consumer. And the NHS business over in the U.K. falls into the legacy OEM business.

Richard Ryan: Okay, okay. And can you just give an update on the U.K.? What you're seeing over there with kind of new product introductions? What sort of traction you're seeing?

Mark Gorder: Well we anticipate putting our new wireless technology over there. The NHS is very interested in that. We're trying to restructure that business down to where it's only selling hearing aids to the NHS. And we're on track to do that during the next quarter or so.

Scott Longval: And Richard we'll continue to update the group as we move through the quarter on some of the plans going forward there.

Richard Ryan: Okay, great. Thank you. Congratulations.

Group: Thank you Richard.

Operator: Thank you. That will conclude our question-and-answer session for today. I'd like to turn the conference back to Mr. Mark Gorder, CEO, for any additional or closing remarks.

Mark Gorder: Thank you operator. Once again we appreciate you taking time out of your day to join the call. In closing I'd like to reiterate that we are excited with the direction we're headed. The first quarter was an exceptional start to the year with record revenue driven by our key medical and value-based hearing health businesses.



The expansion of our robotic and molding capacity positions us to continue to drive growth in our medical businesses and build the assets to pursue new medical opportunities. Furthermore, continue to make meaningful progress developing and advancing our direct-to-consumer hearing health channel, providing affordable and accessible solutions to millions of unserved or underserved Americans.

Thank you again for joining our call. Look forward to speaking with you next quarter.

Operator: Again that will conclude today's conference. Thank you all for your participation. You may now disconnect.