

4Q24 beats | PT back to fundamental DCF

We maintain our MARKET WEIGHT rating on SomnoMed with a revised, price target of \$0.36 per share. The company's performance in 4Q24 went a long way towards instilling confidence after a tumultuous period of disruption and change. The most pleasing aspects included pcp growth in the USA (implying supply improvement and negligible change in competitive intensity) a reset cost base (likely upgrade implications for FY25-26e) and a net cash position from which to launch RestAssure next year (if approved in USA). We unwound the valuation discount introduced earlier this year so that price target reconnects with our DCF valuation for the core business. We are yet to formally include RestAssure in our forecasts and valuation but have [written](#) for years on how it might transform the business. We're looking forward to reviewing the new management team's plans in relation to this new 'connected care' platform, which must be getting close.

Key Points

4Q24 update. US divisional sales of \$8.8M (+9.7% increase in constant currency and a 20% improvement on supply-constrained 3Q24) beat our forecast by 30%. Whilst manufacturing issues are not 100% solved, this result suggests good demand levels and negligible change in competitive dynamics. In Europe, sales decreased 2.3% to \$13.5M noting a 10% comparable pcp. Anecdotally, a few competitors (e.g. Narval in France, others) tried to mobilise but given so much of the business occurs via tenders – negligible real impact. If Europe 'missed' (WILSe: \$14.1M) it was on product availability and longer turnaround times. APAC also surprised where \$1.7M sales were 30% ahead of estimates. Full year revenue of \$91.7M is therefore ahead of revised guidance range (6-9% growth). SomnoMed's cost-out initiative reset costs abruptly leading to an EBITDA guidance upgrade: now \$0.3-0.8M (previously -\$1M to zero). Recent capital raise cleared their non-bank lender debt, leaving SomnoMed with \$16.2M cash at end-FY24.

Changes to forecasts. A 3% upgrade to revenue reflects 4Q24 'beat' and retains modest growth assumptions into FY25-26e. We have left FY25-26e EBITDA estimates broadly unchanged, flagging possible upside in August, after SomnoMed releases its full results and FY25e outlook.

Rebuild continues on several fronts. In the near term, we expect SomnoMed will tackle AVANT's reimbursement situation afresh, seeking to convince PDAC to issue an E-code for CMS reimbursement. Competitively this is likely impeding SomnoMed's access to Medicare beneficiaries with some providers, remembering that their Herbst device is offered as a valid alternative. Investments in people, equipment and digital capabilities has supported manufacturing increases and improvement in turnaround times.

Neutral rating with RestAssure yet to come. Financial and operational characteristics in 4Q24 were good enough to unwind the 40% discount we'd applied in setting our last target price. Unwinding that provides a 55% upgrade to \$0.36 per share. We maintain MARKET WEIGHT given the limited upside to PT. The formal inclusion of RestAssure (approvals expected later this year or early next) could see us become more constructive on SOM, once their US launch plans (and supportive investment levels) become clear.

Financial summary (Y/E Jun, AUD)	FY22A	FY23A	FY24E	FY25E	FY26E
Sales (\$m)	72.6	83.6	91.7	94.5	103.2
EBITDA norm (\$m)	1.3	2.1	0.6	3.2	6.0
Consensus EBITDA (\$m)			(1.3)	3.0	6.0
NPAT norm (\$m)	(3.9)	(6.5)	(8.0)	(3.6)	(0.1)
EV/Sales (x)	0.9	0.9	0.6	0.7	0.7
EV/EBITDA (x)	49.8	37.2	94.3	21.0	11.5
P/E (x)	n/m	n/m	n/m	n/m	n/m

Source: Company data, Wilsons Advisory estimate, Refinitiv, IRESS.
All amounts are in Australian Dollar (A\$) unless otherwise stated.

Wilsons Advisory Equity Research

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Recommendation	MARKET WEIGHT
12-mth target price (AUD)	\$0.36
Share price @ 24-Jul-24 (AUD)	\$0.34
Forecast 12-mth capital return	4.8%
Forecast 12-mth dividend yield	0.0%
12-mth total shareholder return	4.8%

Market cap (\$m)	73.5
Enterprise value (\$m)	78.2
Shares on issue (m)	216.1
Sold short (%)	0.0
ASX All Ords weight (%)	0.0
Median turnover/day (\$m)	0.1

Dr Shane Storey

shane.storey@wilsonsadvisory.com.au

Tel. +61 7 3212 1351

Dr Melissa Benson

melissa.benson@wilsonsadvisory.com.au

Tel. +61 2 8247 6639

12-mth price performance (\$)



	1-mth	6-mth	12-mth
Abs return (%)	36.0	(24.4)	(66.0)
Rel return (%)	32.1	(28.7)	(68.9)

Key changes	6-May	After	Var %
Sales	FY24E 88.6	91.7	3%
(\$m)	FY25E 91.6	94.5	3%
	FY26E 100.1	103.2	3%
EBITDA	FY24E (1.3)	0.6	146%
norm	FY25E 3.0	3.2	5%
(\$m)	FY26E 6.0	6.0	-0%
Price target	0.23	0.36	55%
Rating	M/W	M/W	

Business Description

SomnoMed Limited (SOM) develops, manufactures and sells oral appliance devices for the treatment of obstructive sleep apnoea (OSA). The company has developed a global infrastructure to address the OSA market, with the majority of its sales derived from the US and Europe.

Catalysts

a) New product launches (i.e. Rest Assure®); b) Progress developing links to medical diagnosis channels; c) Quarterly cash flow progress.

P&L (\$m)	FY22A	FY23A	FY24E	FY25E	FY26E
Sales	72.6	83.6	91.7	94.5	103.2
EBITDA norm	1.3	2.1	0.6	3.2	6.0
EBIT norm	(2.6)	(3.0)	(5.0)	(2.8)	(0.0)
PBT norm	(3.0)	(5.6)	(7.0)	(2.8)	(0.1)
NPAT norm	(3.9)	(6.5)	(8.0)	(3.6)	(0.1)
NPAT reported	(4.4)	(7.9)	(8.0)	(3.6)	(0.1)
EPS norm (cents)	(4.8)	(7.7)	(2.5)	(1.1)	(0.0)
DPS (cents)	0.0	0.0	0.0	0.0	0.0

Growth (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Sales	15.7	15.2	9.6	3.1	9.2
EBITDA norm	(66.7)	61.5	(70.6)	416.6	87.0
NPAT norm	423.0	64.0	23.7	(55.5)	(98.2)
EPS norm (cents)	443.9	61.7	(67.9)	(55.5)	(98.2)
DPS (cents)	n/m	n/m	n/m	n/m	n/m

Margins and returns (%)	FY22A	FY23A	FY24E	FY25E	FY26E
EBITDA margin	1.8	2.5	0.7	3.4	5.8
EBIT margin	(3.6)	(3.6)	(5.5)	(3.0)	(0.0)
PBT margin	(4.2)	(6.7)	(7.6)	(3.0)	(0.0)
NPAT margin	(5.4)	(7.7)	(8.7)	(3.8)	(0.1)

Interims (\$m)	1H23A	2H23A	1H24A	2H24E	1H25E
Sales	40.0	43.7	45.1	46.5	44.7
EBITDA norm	0.8	1.3	(1.7)	2.3	1.1
EBIT norm	(1.6)	(1.5)	(4.6)	(0.4)	(1.9)
PBT norm	(2.1)	(3.6)	(6.1)	(0.9)	(1.9)
NPAT norm	(2.9)	(3.6)	(6.9)	(1.1)	(2.4)
NPAT reported	(3.7)	(4.2)	(6.9)	(1.1)	(2.4)
EPS norm (cents)	(3.4)	(4.3)	(7.4)	(0.3)	(0.7)
DPS (cents)	0.0	0.0	0.0	0.0	0.0

Stock specific	FY22A	FY23A	FY24E	FY25E	FY26E
USA revenue (\$m)	24.7	30.2	32.9	32.4	34.3
EMEA revenue (\$m)	42.5	47.3	52.5	55.8	62.0
APAC revenue (\$m)	5.4	6.1	6.3	6.3	7.0

Investment Thesis

We maintain our MARKET WEIGHT rating on SomnoMed with a revised, price target of \$0.36 per share. The company's performance in 4Q24 went a long way towards instilling confidence after a tumultuous period of disruption and change. The most pleasing aspects included pcp growth in the USA (implying supply improvement and negligible change in competitive intensity) a reset cost base (likely upgrade implications for FY25-26e) and a net cash position.

Risks

a) Emerging competition; b) relatively limited capital for business development investment; c) Reimbursement in the USA not improving to broaden access for OAT; d) if successful could face scale-up and logistics challenges when demand increases.

Balance sheet (\$m)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash & equivalents	15.6	12.0	15.7	7.0	5.5
Current receivables	11.3	11.1	13.0	18.5	23.0
Current inventory	3.1	4.1	5.0	5.5	6.0
PPE	4.4	6.2	5.8	5.8	5.8
Intangibles	15.4	19.0	19.2	20.1	21.0
Total assets	58.1	62.5	71.8	70.5	75.4
Current payables	12.9	12.8	10.0	11.0	15.5
Total debt	6.9	16.7	0.4	0.4	0.4
Other liabilities	8.8	8.3	8.2	8.2	8.2
Total liabilities	30.3	40.1	21.1	22.1	26.6
Minorities	0.0	0.0	0.0	0.0	0.0
Shareholders equity	27.8	22.4	50.7	48.4	48.8

Cash flow (\$m)	FY22A	FY23A	FY24E	FY25E	FY26E
Operating cash flow	1.9	(3.9)	(8.8)	(2.7)	4.5
Maintenance capex	(1.0)	(3.2)	(5.0)	(6.0)	(6.0)
Free cash flow	0.8	(7.1)	(13.8)	(8.7)	(1.5)
Growth capex	0.0	(2.3)	0.0	0.0	0.0
Acquisitions/disposals	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Other cash flow	(10.9)	(3.3)	(1.8)	0.0	0.0
Cash flow pre-financing	(10.0)	(12.6)	(15.7)	(8.7)	(1.5)
Funded by equity	0.0	0.0	36.1	0.0	0.0
Funded by cash/debt	5.5	3.5	(39.8)	8.7	1.5

Liquidity	FY22A	FY23A	FY24E	FY25E	FY26E
Cash conversion (%)	228.7	28.6	n/m	(84.7)	75.7
Net debt (\$m)	(8.8)	4.7	(15.4)	(6.6)	(5.1)
Net debt / EBITDA (x)	(6.7)	2.2	(24.9)	(2.1)	(0.9)
ND / ND + Equity (%)	(46.0)	17.4	(43.4)	(15.9)	(11.7)
EBIT / Interest expense (x)	(7.0)	(1.1)	(2.6)	n/m	(5.9)

Valuation	FY22A	FY23A	FY24E	FY25E	FY26E
EV / Sales (x)	0.9	0.9	0.6	0.7	0.7
EV / EBITDA (x)	49.8	37.2	94.3	21.0	11.5
EV / EBIT (x)	n/m	n/m	n/m	n/m	n/m
P / E (x)	n/m	n/m	n/m	n/m	n/m
P / BV (x)	1.0	1.3	2.2	2.3	2.3
FCF yield (%)	3.2	(24.7)	(12.5)	(7.9)	(1.4)
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0
Weighted shares (m)	82.9	84.0	323.7	323.7	323.7

Source: Company data, Wilsons Advisory estimate, Refinitiv, IRESS.
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Wilsons Advisory contact

For more information please phone: 1300 655 015 or email: publications@wilsonsadvisory.com.au