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SomnoMed Ltd (ASX:SOM)

Research Note - FY22 Results

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Ticker:	Current Price:
SOM	A\$1.31

Market Data	
52-Week Range (A\$)	1.14 - 2.65
3mth Avg Vol ('000)	35.9
Market Cap (A\$Mil)	108.4
Shares Out. (Mil)	82.8
Cash (A\$Mil)	15.6
Enterprise Value (A\$Mil)	99.7
Debt (A\$M)	6.9

FY22 REVENUE GREW 15.7% YOY TO A\$72.6M (17% IN CONSTANT CURRENCY (CC)), **BEATING GUIDANCE BY 1%**. Growth was seen across all markets with increased awareness and adoption for SomnoDent® devices. The strongest growth was seen in North America, jumping 33.4% to A\$24.7M (+30% in cc), driven by increased sales and marketing efforts. Sales in Europe† gained 14.7% to A\$42.2M (+18% in cc) driven by strong reimbursement trends and better recognition of COAT™ technology as a treatment for mild and moderate OSA. APAC's sale climbed 1.1% to A\$5.4M (+2% in cc) as the Company continues to drive the adoption of oral appliances in the region through marketing and clinical education programs.



What are the Sparks?

EBITDA* of A\$1.3M, outperforming FY22 guidance of a breakeven. EBITDA* is down 66.7% YoY as SOM prioritises sales and marketing efforts to increase market penetration and reinvest profits for technology innovation to spur the next leg of growth. Bear in mind that the Company had EBITDA* margins of 5%-8% prior to covid. Given the positive outlook for the sector, the Company is now looking to revert to EBITDA* growth with guided FY23 EBITDA* of A\$2M and a longer-term EBITDA* margin goal of 20%.

Gross margin on devices remains robust at 70%. Overall gross margin inched up by 0.8 percentage point YoY to 61.0%, lifted by higher sales in SomnoDent® devices which has a stable average gross margin of ~70%.

Rest Assure® on track to commercialisation. SOM has now finalised the design of the product and completed the second patient validation study as scheduled. The Company is analysing the study results and optimizing the algorithms, if needed, which will be submitted for publication in a scientific sleep journal later in 2H CY2022. Concurrently, manufacturing of the docking station, the sensor components, and the preparation of the documents required for regulatory submissions to the FDA (USA), TGA (Australia), and CE (Europe) are underway. Commercialisation will be dependent on approvals thereafter.

Strong growth momentum to continue into FY2023. The Company released its FY2023 guidance as followed:

- Revenue growth of at least 20%
- EBITDA of at least A\$2M (+53.8% YoY)
- CAPEX investment c.A\$7M of which technology innovation spend is expected to be c.A\$3M.

We value SOM at A\$147.6M or A\$1.78 per share (+36.2% Upside) after updating our model to account for higher operating costs, CAPEX, and an inflation-adjusted discount rate.

†Europe sales excludes one-off COVID grant from HIC in Netherlands
 *EBITDA excludes share/options expenses, unrealised FX gain/(loss) and discontinued operations

Top 5 Shareholders

TDM Growth Partners	26.8%
Australian Ethical Investment Ltd. (ASX:AEF)	12.3%
Dottie Investments Pty. Ltd.	7.9%
Fidelity International Ltd	7.6%
Smartequity EIS Pty Ltd (Company's employees share options plan)	5.6%

(Source: CapIQ)



Valuation

Our updated model values SOM at A\$147.6M or A\$1.78 per share (+36.2% Upside) following these changes:

- Adjusted forecast figures including guided FY23 CAPEX of c.A\$7M
- Increase in discount rate to 11.1% (Prev. 9.4%) due to the A\$16M debt facility with Epsilon Direct Lending, secured in July 2022, that carries a 11.5% interest (BBSW + 9% margin) and the rising interest rate.

Unlevered Free Cash Flows (A\$)						
Financial Year (July - June)	2022A	2023F	2024F	2025F	2026F	2027F
EBIT	(2,655,072)	(3,028,519)	2,499,391	9,277,920	17,126,020	25,377,366
Taxes	(930,607)	(604,149)	(385,375)	(569,021)	(4,281,505)	(6,344,342)
EBIT less taxes	(3,585,679)	(3,632,668)	2,114,016	8,708,899	12,844,515	19,033,025
Depreciation & Amortization (+)	3,936,190	5,445,114	6,290,985	7,060,152	7,299,762	7,389,705
Payment of Lease (-)	(2,450,533)	(2,388,088)	(2,369,083)	(2,801,413)	(2,498,603)	(3,106,406)
Interest expense on Lease (+)	380,327	329,047	325,920	337,283	375,937	463,328
Net Change in Working Capital (-)	1,905,509	505,687	99,534	31,108	28,467	4,084,534
Capital expenditures (-)	(8,788,333)	(7,000,000)	(2,956,111)	(2,576,410)	(3,053,738)	(3,529,160)
Unlevered free cash flows (UFCF)	(8,602,519)	(6,740,908)	3,505,261	10,759,619	14,996,339	24,335,025
Discount rate (r)		11.09%	11.09%	11.09%	11.09%	11.09%
Present Value (PV) of UFCF		(5,462,402)	2,556,926	7,065,247	8,864,380	12,948,740
Sum of PV		25,972,891				
Long term growth rate		3.0%				
NPV of terminal value		190,975,712				
PV of terminal value		112,886,298				
Enterprise Value		138,859,190				
Net debt		(8,753,395)				
Market Capitalisation		147,612,585				
Price per share		1.78				
Upside/(Downside)		36.2%				
Current Price		1.31				



Appendix - Board and Management

Guy Russo, Non-Executive Chairman

Guy Russo is a highly accomplished business leader with a strong commercial and customer-oriented background. He is currently Chairman of Australian-owned Guzman y Gomez Mexican Kitchen (GYG), a fastest-growing Mexican fast-food chain, and OneSky, an international charity for children living in poverty in Asia. Guy is also a non-executive director of Scentre Group (ASX: SCG) which owns and operates Westfield Living Centres in Australia and New Zealand. He held various C-level position in large MNCs such as Kmart, Target, and McDonald.

Neil Verdal-Austin, Chief Executive Officer and Managing Director

Verdal-Austin was appointed CEO in November 2018 and Managing Director in August 2020. He has more than 25 years' experience with various medical distribution and manufacturing companies where making a difference in people's lives has become his passion. Prior to this appointment, Neil was SomnoMed's CFO for 10 years and played an instrumental role in growing the company ten-fold. Prior to joining SomnoMed, Neil worked at LifeHealthcare, the largest Australian healthcare distributor of medical products and devices and served as CFO and a key stakeholder at the Orthomedics Group, a large medical distributor in South Africa.

Hamish Corlett, Non-Executive Director

Hamish Corlett is a founder and director of TDM Growth Partners, a leading private investment firm specializing in long term investments in high-growth companies globally. TDM made its first investment in SomnoMed in April 2010 and has been a substantial shareholder since October 2012. Prior to TDM, Hamish worked as an investment manager at Caledonia Investments, a global fund manager. He has extensive experience in North America and Europe in addition to Australia.

Amrita Blickstead, Non-Executive Director

Amrita Blickstead is responsible for helping drive the short-term and multi-year strategy of the business. She is currently the Chief Operating & Marketing Officer at eBay Australia & New Zealand as well as a member of the Executive Leadership Team. Other roles held during her time at eBay include Director of Small & Medium Business (SMB) & Shipping, Head of SMB, Senior Manager of Pricing, B2C Strategy & Seller Experience, and Manager of Cross Border Trade. Amrita.

Michael Gordon, Non-Executive Director

Michael Gordon is the CFO of Rokt Ltd. Rokt is a high-growth marketing technology company with more than US\$100m in sales, over 280 employees and offices in Sydney, New York, Tokyo, Singapore and Auckland. Prior to Rokt, Michael was the Group CFO and MD of Group Services for Greenlit Brands Pty Limited, a A\$2.4 billion vertically integrated retailer based in ANZ and included brands Freedom, Snooze, Fantastic, Plush, OMF, Best & Less and Harris Scarfe. Prior to Greenlit Brands, Michael spent ten years with PricewaterhouseCoopers in South Africa, the United Kingdom and Australia specializing in the Retail industry with experience in Audit, Taxation M&A and IPO's.

Hilton Brett, Non-Executive Director

Hilton Brett is an Operating Advisor at TDM Growth Partners and a non-executive Director of Pacific Smiles Ltd (PSQ:ASX) that owns and operates 94 dental care centers across Australia. He is also a non-executive Director of Guzman Y Gomez Mexican Taqueria (GYG) and was Co-CEO of Accent Group Limited (formerly RCG Corporation Ltd) which is the regional leader in the retail and distribution of performance and lifestyle footwear with over 420 stores across 10 retail banners.

Karen Borg, Non-Executive Director

Karen Borg has multi-sector, market and channel experience in multiple industries in FTSE 100-250 companies. Karen was previously President Asia Pacific/Middle East at ResMed and Global Vice President at Johnson & Johnson, based in the USA. She has worked for Revlon in Eastern Europe, Seagram in Russia, Goodman Fielder and Nestle in Australia and Taiwan. Karen has recently completed a term as Chief Executive Officer of Healthdirect Australia. Prior to this, Karen was the inaugural CEO of Jobs for NSW, where she led a combined private/public sector department that redesigned government support for private enterprise.

Terence Flitcroft, Company Secretary

Terence Flitcroft was a Director of SomnoMed from 1995 until May 2003. He is a Chartered Accountant with broad commercial and financial experience and has acted as a director and company secretary for a number of private and public companies. Terence provides company secretarial and accounting services to the Company on a contract basis. He is a Director of Winchester Associates Pty Limited, a licensed investment advisor.



Financials including Spark Plus's forecast

Income Statement

Income Statement AUD millions	FY2021A 30-Jun-21	FY2022A 30-Jun-22	FY2023F 30-Jun-23	FY2024F 30-Jun-24	FY2025F 30-Jun-25
Revenue	62.7	72.6	86.6	109.9	139.3
Cost of revenue	-25.0	-28.3	-33.1	-38.7	-45.5
Gross Profit	37.7	44.3	53.5	71.2	93.8
<i>Gross margin</i>	60.2%	61.0%	61.8%	64.8%	67.3%
Other operating income	0.7	0.3	0.0	0.0	0.0
Sales & Marketing expenses	-15.6	-19.7	-23.3	-30.5	-37.8
Administrative expenses	-11.2	-12.6	-14.6	-18.4	-23.0
Corporate and R&D expenses	-7.8	-10.9	-13.2	-11.6	-14.4
Share-based payment	0.0	-1.2	-1.6	-1.9	-2.3
D&A	-3.8	-3.9	-5.4	-6.3	-7.1
Unrealised FX gain/(loss)	-0.1	0.7	0.0	0.0	0.0
EBIT	-0.3	-3.1	-4.6	2.5	9.3
<i>EBIT margin</i>	-0.4%	-4.3%	-5.4%	2.3%	6.7%
EBITDA	3.8	1.3	2.4	8.8	16.3
<i>EBITDA margin</i>	6.1%	1.8%	2.8%	8.0%	11.7%
Financial income	0.0	0.0	0.0	0.1	0.2
Financial expense	-0.5	-0.4	-1.2	-1.1	-1.1
EBT	-0.7	-3.5	-5.8	1.5	8.4
Tax expense	-0.3	-0.9	-0.6	-0.4	-0.6
Profit/(Loss)	-1.1	-4.4	-6.4	1.2	7.8
<i>Net margin</i>	-1.7%	-6.1%	-7.4%	1.1%	5.6%
Loss from discontinued operations	-0.1	0.0	0.0	0.0	0.0
Loss for the Group	-1.2	-4.4	-6.4	1.2	7.8
Basic EPS (cents per share)	-1.52	-5.65	-7.73	13.96	94.67



Balance Sheet

Balance Sheet AUD millions	FY2021A 30-Jun-21	FY2022A 30-Jun-22	FY2023F 30-Jun-23	FY2024F 30-Jun-24	FY2025F 30-Jun-25
Current assets					
Cash and cash equivalents	21.1	15.6	18.1	22.8	35.4
Trade receivables	10.6	11.3	13.1	16.1	19.8
Inventories	2.3	3.1	3.5	4.2	4.9
Lease receivables	0.1	0.3	0.2	0.2	0.2
Total current assets	34.1	30.3	34.9	43.4	60.3
Non-current assets					
PPE	4.7	4.4	4.7	5.5	5.1
Intangible assets	8.6	15.4	18.7	16.9	14.9
Other non-current assets	8.7	7.9	7.2	6.0	4.4
Total non-current assets	22.0	27.8	30.6	28.3	24.4
Total assets	56.2	58.1	65.5	71.7	84.8
Current liabilities					
Trade payables	10.6	12.9	14.6	17.0	20.1
Borrowings	0.0	4.9	0.3	0.3	19.7
Lease Liability	2.0	1.8	1.8	2.2	1.6
Other current liabilities	3.6	4.3	5.0	4.9	5.9
Total current liabilities	16.2	23.8	21.8	24.4	47.3
Non-current liabilities					
Borrowings	2.3	2.0	18.3	19.1	0.5
Long term lease liability	4.6	3.3	2.1	1.6	1.8
Other non-current liabilities	0.9	1.2	1.0	1.3	1.5
Total non-current liabilities	7.8	6.5	21.4	21.9	3.9
Total liabilities	24.0	30.3	43.2	46.3	51.2
Equity					
Issued capital	74.3	74.3	74.3	74.3	74.3
Reserves	7.8	7.8	9.2	11.0	11.4
Retained earnings (losses)	-49.9	-54.3	-61.1	-59.9	-52.1
Total equity	32.2	27.8	22.4	25.3	33.6



Cash Flow Statement

Cash flow statement AUD millions	FY2021A 30-Jun-21	FY2022A 30-Jun-22	FY2023F 30-Jun-23	FY2024F 30-Jun-24	FY2025F 30-Jun-25
Cash flow from operating activities					
Net profit	-1.2	-4.4	-6.4	1.2	7.8
Reconciliation:					
D&A	3.8	3.9	5.4	6.3	7.1
Share-based payment	0.0	1.2	1.6	1.9	2.3
FX changes	0.1	-0.7	0.0	0.0	0.0
Change in Net Working Capital	0.0	1.9	-0.5	-0.1	0.0
Net cash used in operating activities	2.7	1.9	0.1	9.3	17.1
Cash flow from investing activities	0	0	0	0	0
Purchase of PPE	-2.2	-1.0	-2.0	-2.3	-1.7
Purchase of intangibles assets	-2.0	-7.8	-5.0	-0.7	-0.9
Other cash used in investing activities	-0.2	0.3	0.0	0.0	0.0
Net cash used in investing activities	-4.4	-8.5	-7.0	-3.0	-2.6
Cash flow from financing activities	0	0	0	0	0
Proceeds from borrowing	0.0	4.5	17.1	1.1	1.1
Repayment of borrowings	-4.8	0.0	-5.4	-0.3	-0.3
Proceeds from share issuance	0.4	0.0	0.0	0.0	0.0
Share issuance cost	0.0	0.0	0.0	0.0	0.0
Payment of finance lease	-2.4	-2.5	-2.4	-2.4	-2.8
Net cash provided by financing activities	-6.8	2.1	9.3	-1.6	-2.0
Net increase in cash and CE	-8.5	-4.5	2.4	4.8	12.6
Start cash and CE	30.2	21.1	15.6	18.1	22.8
FX adjustment	-0.6	-0.9	0.0	0.0	0.0
End cash and CE	21.1	15.6	18.1	22.8	35.4



Disclosure of Interests:

SomnoMed Limited currently are, or in the past 12 months have been, a client Spark Plus Pte Ltd. During this period, Spark Plus Pte Ltd provided corporate advisory services. In the past 12 months, Spark Plus Pte Ltd have received compensation corporate advisory services from the company. Spark Plus Pte Ltd intends to seek or expect to receive compensation for corporate advisory services from the Company in the next three months.

Spark Plus directors, consultants, and advisers currently hold less than 1% of issued shares in SomnoMed Limited and may buy or sell the shares from time to time.

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