

0 April 28, 2022

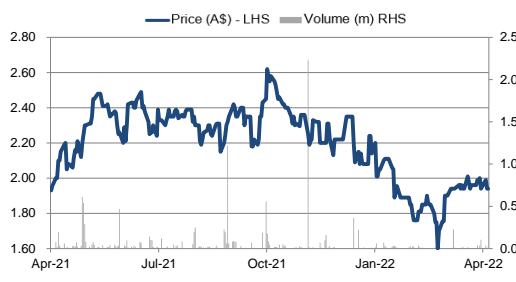
**ADD** (no change)

Stock code:	SOM AU
Price:	A\$1.94
12-month target price:	A\$2.51
Previous target price:	A\$2.51
Up/downside to target price:	29.4%
Dividend yield:	0.0%
12-month TSR*:	29.4%
Market cap:	A\$161m
Average daily turnover:	A\$0.04m
Index inclusion:	N/A

\* Total stock return – Up/downside to target price + 12-month forward dividend yield.

**Price performance**

(%)	1M	3M	12M	3Y
Absolute	2.1	-5.4	0.5	22.1
Rel ASX/S&P200	4.1	-10.5	-3.3	7.5



Source: Bloomberg

**Financial summary**

	Jun-21A	Jun-22F	Jun-23F	Jun-24F
Revenue (A\$m)	62.7	72.9	83.1	99.0
EBITDA Norm (A\$m)	2.7	-0.1	7.4	9.8
Net Profit (A\$m)	-1.0	-2.6	2.5	4.2
EPS Norm (A\$)	-0.01	-0.03	0.03	0.05
EPS Growth Norm (%)	119.4%	165.8%	NA	69.4%
P/E Norm (x)	NA	NA	64.7	38.8
DPS (A\$)	0.00	0.00	0.00	0.00
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%
EV/EBITDA (x)	51.9	-1110.0	20.0	14.7
Gearing (Net Debt/EBITDA)	-6.85	91.90	-1.88	-1.71

Source: Company data, Morgans estimates

**Related research**
[Sector report - 17 Mar 2022](#)
[SOM \(ADD - TP A\\$2.51\) - 22 Feb 2022](#)
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Analyst(s) own shares in the following stocks mentioned in this report:

– N/A

# SomnoMed

## Steady for now but potential growth driver ahead

- SOM has released its 3Q22 cashflow report, showing steady improvements to patient activity and engagement, particularly in the US.
- A seasonally weaker cashflow collection period along with timing and payment of significant annual expenses has recorded a cash outflow for the quarter, but SOM continues to maintain a broadly cashflow neutral position on an annual basis in line with its R&D growth strategy.
- While FY22 sales run-rates sit marginally below our forecasts (~4% below), reiteration of FY22 guidance remains (15% sales growth and EBITDA breakeven). With continued sales momentum particularly in the US, we view this as readily achievable and will likely mark a record quarterly result.
- As stated in our previous report, we await further details around finalisation, regulatory acceptance, pricing, and subsequent launch of SOM's new technology-enabled device which we view as a potential game-changer for the treatment and adoption for its patients. We reserve this new product as further upside.
- We make no changes to our forecasts and retain a positive Add recommendation and target price of A\$2.51.

**3Q cashflow report**

- SOM reported unaudited revenues of A\$17.3m (+21 on pcp, down 5.7% qoq), bringing revenues in the financial period to A\$51.2m (+10.3% in the pcp). Based on the revenue run rate and seasonality mix (ex RSS) in 4Q of around 26.6% quarterly sales splits, SOM is tracking marginally lower (~4%) than our FY22 forecasts (run-rate ~A\$70m vs MorgansE of ~A\$73m).
- The North American channel (~33% of sales) was once again the standout with 42% growth in the pcp as clinical and patient markets continue to normalise in a post-lockdown COVID-19 market.
- Europe (~60% of sales) continues to improve with sales growth of 13% in the pcp (to A\$10.2m) although trading still appears fairly volatile market to market. Importantly, a number of major regions continue to outperform with increasing market penetration rates, further cementing SOM's products as the standard of care COAT therapy within those core markets.
- Reinvestment into R&D remains a feature with A\$3.4m expensed over the quarter in relation to the Rest Assure technology. Year-to-date R&D expenses relating to the technology are A\$6.3m out of a guided A\$8m investment in FY22.
- The company recorded A\$2.2m in operating cash outflow and closed the period with A\$14.8m in available cash (net cash A\$8m inclusive of A\$6.7m debt).

**Analysis**

- No significant news or emerging trends, but the business continues to show solid claw-back into growth for the North American business, while increasing penetration across key jurisdictions in Europe.
- Core focus for the market will continue to centre around the new technology piece which, if approved, will have created a unique and entirely new revenue stream within the treatment modality. Further development milestones and approvals are forthcoming.

**Forecast and valuation update**

- We have made no changes to our forecasts or recommendation at this stage.
- Our DCF valuation and target price of A\$2.51 remains unchanged.

**Investment view**

- Positive view and Add recommendation maintained.

**Risks**

- Downside risk to our target is slower-than-expected growth across our core market assumptions.

# SomnoMed

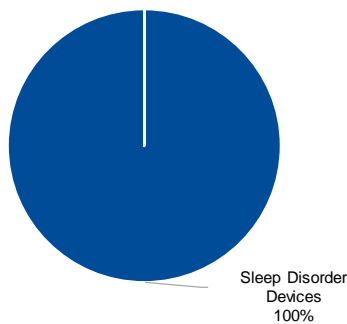
as at April 28, 2022

<b>Rating</b>	<b>ADD</b>	Price (A\$):	1.94
Market cap (A\$m):	161	12-month target price (A\$):	2.51
Shares outstanding (m):	83.02	Up/downside to target price (%):	29.4
Free float (%):	67.1	Dividend yield (%):	0.0

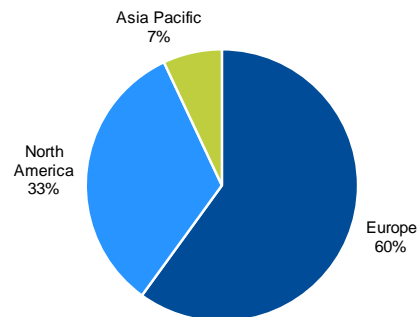
## Company description

SomnoMed Limited (SOM) provides treatment solutions for sleep-related breathing disorders including obstructive sleep apnea, snoring and bruxism. The SomnoDent® product range involves a custom fitted, comfortable, clinically researched oral appliance worn at night to treat obstructive sleep apnea. The SomnoDent® product has a number of innovative designs including a Avant, Fusion Flex and Classic. The SomnoDent® is designed for the patients who suffers from mild to moderate OSA and includes the proprietary BFlex soft inner liner for unparalleled comfort and retention.

### Business segmentation by revenue



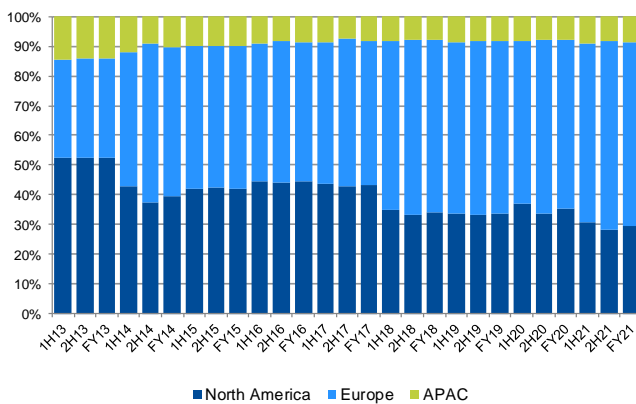
### Geographical segmentation by revenue



Source: Morgans estimates, company data

Source: Morgans estimates, company data

### Revenue splits by geography (core business)



Source: Morgans estimates, company data

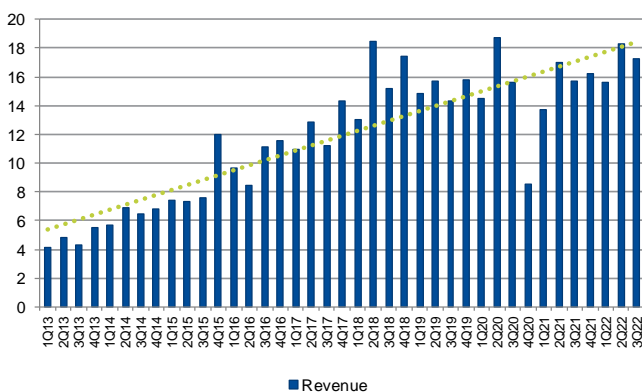
### COVID-19 RISKS

#### The specific risks associated with the Coronavirus (COVID 19) event are:

- Patients not being able to seek diagnosis and obtain treatment and people not wanting or able to visit dentists
- Inability to collect accounts receivable from customers whose practices have been temporarily closed
- Manufacturing risk such that there is an inability to have technicians physically able to come to work and perform their duties
- Third party supply disruption of necessary raw material
- Executive management contracting COVID 19 and remaining sick or no longer being able to fulfil their duties in any capacity
- Prolonged periods of lock down in SomnoMed's sales markets
- Ongoing support of current finance providers

Source: Morgans estimates, company data

### Quarterly sales revenue



Source: Morgans estimates, company data

### Key drivers / risks

#### Key Drivers

- Compliance** - Higher compliance rates (80% for COAT vs <50% for CPAP) and lower cost than CPAP competitors.
- Expansion** - European expansion continuing to show strong growth. Underserved market for treatment modality
- Turnaround** - Watching for evidence of a US turnaround after a direct retail channel move was received poorly by existing wholesale customers.

#### Key risks:

- FX** - Majority of revenues generated outside of Australia.
- Substitution** - A number of new and existing alternative products exist in the sleep apnea space which may impact SOM's ability to gain market share.
- Reimbursement** - Risk that insurance companies/governments which partially or fully subsidise the products reduce or exclude the reimbursement for the treatment.

Source: Morgans estimates, company data

Figure 1: Financial summary

Income statement						Valuation metrics							
	FY20A	FY21F	FY22F	FY23F	FY24F						Price Target (A\$)	\$2.51	
<b>Total revenue</b>	<b>57.3</b>	<b>62.7</b>	<b>72.9</b>	<b>83.1</b>	<b>99.0</b>	<b>DCF valuation inputs</b>							
<b>EBITDA</b>	<b>4.7</b>	<b>2.7</b>	<b>-0.1</b>	<b>7.4</b>	<b>9.8</b>	Rf	3.00%	10-year rate					3.00%
Associate income	0.0	0.0	0.0	0.0	0.0	Rm-Rf	6.00%	Margin					2.0%
Depreciation	-3.1	-3.8	-3.8	-3.8	-3.8	Beta	1.27	Kd					3.50%
EBITA	1.6	-1.1	-4.0	3.5	5.9	CAPM (Rf+Beta(Rm-Rf))	10.6%	Ke					13.3%
Amortisation/impairment	0.0	0.0	0.0	0.0	0.0	Equity (E/EV)	60.0%	NPV cash flow (A\$m)					185.2
EBIT	1.6	-1.1	-4.0	3.5	5.9	Debt (D/EV)	40.0%	Minority interest (A\$m)					0.0
Net interest expense	-0.5	0.6	0.4	0.2	0.2	Interest rate	3.50%	Net debt (A\$m)					-22.7
Pre-tax profit	0.7	-0.6	-3.7	3.5	6.0	Tax rate (t)	30.0%	Investments (A\$m)					0.0
Income tax expense	-1.2	-0.3	1.1	-1.1	-1.8	<b>WACC</b>	9.4%	Equity market value (A\$m)					207.9
After-tax profit	-0.4	-1.0	-2.6	2.5	4.2							Diluted no. of shares (m)	82.8
Minority interests	0.0	0.0	0.0	0.0	0.0								
<b>NPAT</b>	<b>-0.4</b>	<b>-1.0</b>	<b>-2.6</b>	<b>2.5</b>	<b>4.2</b>								
Significant items	-0.7	0.0	0.0	0.0	0.0								
<b>NPAT post abnormals</b>	<b>-1.1</b>	<b>-1.0</b>	<b>-2.6</b>	<b>2.5</b>	<b>4.2</b>								
Cash flow statement						Multiples							
	FY20A	FY21F	FY22F	FY23F	FY24F		FY20A	FY21F	FY22F	FY23F	FY24F		
EBITDA	4.7	2.7	-0.1	7.4	9.8	Enterprise value (A\$m)	198.2	184.0	177.6	179.1	182.0		
Change in working capital	9.1	-1.8	-3.1	-0.8	-1.1	EV/Sales (x)	3.5	2.9	2.4	2.2	1.8		
Net interest (pd)/rec	0.0	0.0	0.0	0.0	0.0	EV/EBITDA (x)	42.0	67.2	-1325.1	24.3	18.6		
Taxes paid	1.2	0.3	-1.1	1.1	1.8	EV/EBIT (x)	121.1	-167.4	-44.7	50.9	30.6		
Other oper cash items	0.0	0.0	0.0	0.0	0.0	PE (x)	-366.8	-167.2	-62.9	64.9	38.3		
<b>Cash flow from ops (1)</b>	<b>15.0</b>	<b>1.3</b>	<b>-4.4</b>	<b>7.7</b>	<b>10.5</b>	PEG x)	-0.5	-1.4	-0.4	-0.3	0.6		
Capex (2)	-3.1	-3.8	-3.8	-3.8	-3.8								
Disposals/(acquisitions)	0.0	0.0	0.0	0.0	0.0								
Other investing cash flow	0.0	0.0	0.0	0.0	0.0								
<b>Cash flow from investing (3)</b>	<b>-3.1</b>	<b>-3.8</b>	<b>-3.8</b>	<b>-3.8</b>	<b>-3.8</b>								
Incr/(decr) in equity	0.0	0.0	0.0	0.0	0.0								
Incr/(decr) in debt	0.0	0.0	0.0	0.0	0.0								
Ordinary dividend paid	0.0	0.0	0.0	0.0	0.0								
Preferred dividends (4)	0.0	0.0	0.0	0.0	0.0								
Other financing cash flow	-2.5	-2.4	0.0	0.0	0.0								
<b>Cash flow from fin (5)</b>	<b>-2.5</b>	<b>-2.4</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>								
Forex and disc ops (6)	0.0	0.0	0.0	0.0	0.0								
<b>Inc/(decr) cash (1+3+5+6)</b>	<b>9.5</b>	<b>-4.9</b>	<b>-8.2</b>	<b>3.8</b>	<b>6.7</b>								
Equity FCF (1+2+4)	12.0	-2.5	-8.2	3.8	6.7								
Balance sheet						Per share data							
	FY20A	FY21F	FY22F	FY23F	FY24F		FY20A	FY21F	FY22F	FY23F	FY24F		
Cash & deposits	30.2	21.1	14.7	16.2	19.1	No. shares	82.8	83.0	83.0	83.0	83.0		
Trade debtors	7.7	10.6	9.0	10.2	12.2	EPS (cps)	-0.5	-1.2	-3.1	3.0	5.1		
Inventory	2.2	2.3	0.0	0.0	0.0	Dividend per share (c)	0.0	0.0	0.0	0.0	0.0		
Other current assets	0.0	0.0	0.0	0.0	0.0	Dividend payout ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%		
Goodwill	0.0	0.0	0.0	0.0	0.0	Dividend yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%		
Other intangible assets	0.0	0.0	0.0	0.0	0.0								
Fixed assets	3.9	4.7	4.7	4.7	4.7								
Investments	0.0	0.0	0.0	0.0	0.0								
Other assets	17.7	17.4	17.4	17.4	17.4								
<b>Total assets</b>	<b>61.7</b>	<b>56.2</b>	<b>45.7</b>	<b>48.5</b>	<b>53.4</b>								
Short-term borrowings	0.0	0.0	0.0	0.0	0.0								
Trade payables	8.7	10.6	3.5	4.0	4.9								
Long-term borrowings	7.5	2.3	2.3	2.3	2.3								
Other term liabilities	8.7	7.6	7.6	7.6	7.6								
Other liabilities	0.0	0.0	0.0	0.0	0.0								
<b>Total liabilities</b>	<b>27.9</b>	<b>24.0</b>	<b>16.9</b>	<b>17.4</b>	<b>18.3</b>								
Share capital	73.9	74.3	74.3	74.3	74.3								
Other reserves	8.6	7.8	7.8	7.8	7.8								
Retained earnings	-48.7	-49.9	-53.2	-50.9	-46.9								
Other equity	0.0	0.0	0.0	0.0	0.0								
<b>Total equity</b>	<b>33.8</b>	<b>32.2</b>	<b>28.8</b>	<b>31.1</b>	<b>35.1</b>								
Minority interest	0.0	0.0	0.0	0.0	0.0								
Total shareholders' equity	33.8	32.2	28.8	31.1	35.1								
<b>Total liabilities &amp; SE</b>	<b>61.7</b>	<b>56.2</b>	<b>45.7</b>	<b>48.5</b>	<b>53.4</b>								
						Growth ratios							
	FY20A	FY21F	FY22F	FY23F	FY24F		FY20A	FY21F	FY22F	FY23F	FY24F		
Sales growth	-3%	9%	16%	14%	19%	Operating cost growth	-3%	14%	22%	4%	18%		
Operating cost growth	-3%	14%	22%	4%	18%	EBITDA growth	-5%	-42%	-105%	5590%	33%		
EBITDA growth	-5%	-42%	-105%	5590%	33%	EBITA growth	-53%	-167%	-261%	189%	69%		
EBITA growth	-53%	-167%	-261%	189%	69%	EBIT growth	-53%	-167%	-261%	189%	69%		
EBIT growth	-53%	-167%	-261%	189%	69%	NPAT growth	-1012%	-120%	-166%	197%	69%		
NPAT growth	-1012%	-120%	-166%	197%	69%	Normalised EPS growth	736%	119%	166%	-197%	69%		
Normalised EPS growth	736%	119%	166%	-197%	69%								
						Operating performance							
	FY20A	FY21F	FY22F	FY23F	FY24F		FY20A	FY21F	FY22F	FY23F	FY24F		
Asset turnover (%)	29.7	26.6	35.8	44.1	48.6	Asset turnover (%)	29.7	26.6	35.8	44.1	48.6		
EBITDA margin (%)	8.2	4.4	-0.2	8.9	9.9	EBITDA margin (%)	8.2	4.4	-0.2	8.9	9.9		
EBIT margin (%)	2.9	-1.8	-5.5	4.2	6.0	EBIT margin (%)	2.9	-1.8	-5.5	4.2	6.0		
Net profit margin (%)	-0.8	-1.5	-3.5	3.0	4.2	Net profit margin (%)	-0.8	-1.5	-3.5	3.0	4.2		
Return on net assets (%)	1.3	-14.4	-22.4	19.6	4.8	Return on net assets (%)	1.3	-14.4	-22.4	19.6	4.8		
Net debt (A\$m)	-22.7	-18.8	-12.3	-13.8	-16.7	Net debt (A\$m)	-22.7	-18.8	-12.3	-13.8	-16.7		
Net debt/equity (%)	-67.1	-58.3	-42.7	-44.5	-47.7	Net debt/equity (%)	-67.1	-58.3	-42.7	-44.5	-47.7		
Net interest/EBIT cover (x)	20.3	11.6	13.4	16.5	17.3	Net interest/EBIT cover (x)	20.3	11.6	13.4	16.5	17.3		
Invested capital	20.3	11.6	13.4	16.5	17.3	Invested capital	20.3	11.6	13.4	16.5	17.3		
ROIC (%)	-2.2	-8.3	-19.1	15.0	24.3	ROIC (%)	-2.2	-8.3	-19.1	15.0	24.3		
						Internal liquidity							
	FY20A	FY21F	FY22F	FY23F	FY24F		FY20A	FY21F	FY22F	FY23F	FY24F		
Current ratio (x)	4.6	3.2	6.7	6.6	6.4	Current ratio (x)	4.6	3.2	6.7	6.6	6.4		
Receivables turnover (x)	6.2	6.8	7.4	8.6	8.8	Receivables turnover (x)	6.2	6.8	7.4	8.6	8.8		
Payables turnover (x)	6.2	6.2	10.4	20.2	20.1	Payables turnover (x)	6.2	6.2	10.4	20.2	20.1		

Source: Morgans estimates, company data

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