

3Q – COVID impact abates; momentum back in all markets

SomnoMed has announced its 3QFY22 results, with revenue of \$17.3m, as well as ytd revenue of \$51.3m, up 14% on the prior corresponding period (pcp). The company has reiterated its FY22 guidance on revenue growth (at least 15%) and EBITDA (breakeven). Cash at 31 March 2022 was \$14.8m. SomnoMed remains confident about improving business conditions across its areas of operation and now treats more than 695k patients globally.

No surprises from 3Q: guidance reiterated as Rest Assure® launch gets closer

- Cash receipts up for quarter:** Cash receipts were \$16.7m for the quarter (+12.5% yoy). Revenue was \$17.3m (+9% in constant currency yoy), slightly down on the previous quarter due to COVID-19-led volatility in trading and activity levels. Revenue year to date was \$51.2m (+15% in constant currency yoy).
- Guidance reaffirmed for full year:** FY22 guidance was reaffirmed for revenue growth of at least 15% and breakeven EBITDA. Cash available was \$14.8m as the business invests in its technology initiatives and continues to pursue business development activities in key markets.
- Total treated patients:** Total patients treated worldwide exceeded 695,000 on the back of improving business conditions across all regions as patient activity and engagement with medical clinicians normalises post COVID-19.
- Rest Assure® prototype well received:** Development of Rest Assure®, the company's first-ever in-built technology-enabled oral appliance, continued during the quarter. The Rest Assure® hardware and software is in prototype stage, with a patient validation study underway to confirm algorithms for efficacy and compliance in order to objectively measure therapy effectiveness. SomnoMed attended the World Sleep 2022 conference and has indicated that Rest Assure® received strong positive feedback at this event. The international patent application for Rest Assure® technology has been completed.

Valuation: base case 72% above current share price

We value SomnoMed at ~\$269m, or \$3.20 per share (undiluted and unchanged), based on DCF methodology. Our valuation assumes FDA clearance (using a probability of 70%) and the subsequent launch of Rest Assure® in 1H23.



SomnoMed Ltd. designs, manufactures and sells premium oral appliances for the treatment of sleep-disordered breathing conditions. The company was founded in 1987 and is headquartered in Sydney, Australia. SomnoMed's SomnoDent™ suite of oral devices are FDA cleared for mild to moderate obstructive sleep apnea (OSA) and available in 28 countries across Europe, North America, and APAC.

Stock	SOM.ASX
Price	A\$1.86
Market cap	A\$154m
Valuation	A\$3.20

Company data

Net cash (as at 31 Dec 2021)	\$15.2m
Shares on issue	84.0m
Code ASX	SOM

Share price catalysts

1HCY22 – Completion of patient validation study

2HCY22 – Regulatory submission for Rest Assure

SOM share price (A\$)



Source: FactSet.

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Exhibit 1 – Financial summary (year-end 30 June, AUD unless otherwise stated)

SomnoMed						SOM-AU																
Year end 30 June, AUD unless otherwise noted																						
MARKET DATA						12-MONTH SHARE PRICE PERFORMANCE (A\$)																
Price	\$	1.86																				
52 week high / low	\$	1.76-2.31																				
Valuation	\$	3.20																				
Market capitalisation	\$m	156.2																				
Shares on issue (basic)	m	84.0																				
Options / rights	m	4.2																				
Other equity	m	0.0																				
Shares on issue (diluted)	m	88.2																				
INVESTMENT FUNDAMENTALS						PROFIT AND LOSS																
Reported NPAT	\$m	(1.1)	(1.2)	(3.9)	1.8	4.4	Total Revenue	\$m	57.3	62.7	72.1	88.0	111.7									
Underlying NPAT	\$m	(1.1)	(1.2)	(3.9)	1.8	4.4	Operating expenses	\$m	(54.7)	(59.5)	(72.3)	(80.9)	(102.2)									
Reported EPS (diluted)	¢	(1.7)	(1.4)	(4.7)	2.1	5.2	EBITDA	\$m	4.4	3.8	0.4	7.7	10.1									
Underlying EPS (diluted)	¢	(1.7)	(1.4)	(4.7)	2.1	5.2	Depreciation & Amortisation	\$m	3.1	3.8	3.6	5.2	5.0									
Growth	%		-13.3%	226.5%	-145.2%	146.4%	EBIT	\$m	1.3	0.0	(3.2)	2.5	5.1									
Underlying PER	x	nm	nm	nm	87.7	35.6	Net interest	\$m	0.0	0.0	0.0	0.0	0.0									
Operating cash flow per share	¢	8.2	3.5	(0.7)	7.3	9.9	Pretax Profit	\$m	0.7	(0.7)	(3.9)	1.8	4.4									
Free cash flow per share	¢	5.3	(2.1)	(10.3)	2.5	5.1	Tax expense	\$m	(1.2)	(0.3)	0.0	0.0	0.0									
Price to free cash flow per share	x	34.9	nm	nm	74.6	36.4	Reported NPAT	\$m	(1.1)	(1.2)	(3.9)	1.8	4.4									
FCF Yield	%	2.9%	nm	nm	1.3%	2.8%	Weighted average diluted shares	m	63.1	78.4	84.0	84.0	84.0									
Dividend	¢	0.0	0.0	0.0	0.0	0.0	GROWTH PROFILE															
Payout	%	0.0%	0.0%	0.0%	0.0%	0.0%	Revenue	%	(2.7)	9.4	15.0	22.0	27.0									
Yield	%	0.0%	0.0%	0.0%	0.0%	0.0%	EBITDA	%	86.8	(13.0)	(89.8)	1,844.1	32.1									
Franking	%	0.0%	0.0%	0.0%	0.0%	0.0%	EBIT	%	45.5	(99.3)	(34,895.7)	(177.2)	104.6									
Enterprise value	\$m	133.5	137.5	146.1	144.0	139.7	Reported NPAT	%	1,012.9	147.1	263.9	(145.2)	146.4									
EV/EBITDA	x	30.2	35.7	370.5	18.8	13.8	BALANCE SHEET															
EV/EBIT	x	99.9	14,813.4	(45.2)	57.8	27.4	Cash	\$m	30.2	21.1	12.5	14.6	18.9									
Price to book (NAV)	x	4.3	4.9	5.5	5.2	4.5	Receivables	\$m	7.6	10.6	12.1	14.8	18.8									
Price to NTA	x	5.6	6.6	7.6	6.8	5.6	Other	\$m	2.5	2.5	2.8	3.3	4.1									
KEY RATIOS						FY19A	FY20A	FY21A	FY22E	FY23E	Current assets		\$m	40.2	34.1	27.5	32.7	41.8				
EBITDA margin	%	7.7	6.1	0.5	8.7	9.1	PPE	\$m	3.9	4.7	11.3	11.9	12.3									
EBIT margin	%	2.3	0.0	nm	2.8	4.6	Intangible assets	\$m	7.9	8.6	7.8	7.1	6.4									
NPAT margin	%	nm	nm	nm	2.0	3.9	Right-of-use assets	\$m	6.3	5.6	4.2	3.2	2.4									
ROE	%	nm	nm	nm	5.9	12.8	Other	\$m	0.1	0.1	0.1	0.1	0.1									
ROA	%	nm	nm	nm	3.1	6.6	Non current assets	\$m	21.5	22.0	26.4	25.2	24.2									
Net tangible assets per share	\$	0.3	0.3	0.2	0.3	0.3	Total assets	\$m	61.7	56.2	53.9	58.0	66.1									
Book value per share	\$	0.4	0.4	0.3	0.4	0.4	Trade and other payables	\$m	8.6	10.6	12.2	14.6	18.3									
Net debt/(cash)	\$m	(22.7)	(18.8)	(10.1)	(12.2)	(16.5)	Borrowing and lease liabilities	\$m	7.3	2.0	2.0	2.0	2.0									
Interest cover/ (EBIT /net interest)	x	104.4	2.3	nm	nm	nm	Other	\$m	2.9	3.6	3.6	3.6	3.6									
Gearing (net debt/EBITDA)	x	nm	nm	nm	nm	nm	Current liabilities	\$m	18.8	16.2	17.8	20.2	23.9									
Leverage (net debt/(net debt + equity))	x	nm	nm	nm	nm	nm	Borrowing and lease liabilities	\$m	8.2	7.0	7.0	7.0	7.0									
DUPONT ANALYSIS						FY19A	FY20A	FY21A	FY22E	FY23E	Other liability	\$m	0.8	0.9	0.9	0.9	0.9					
Net Profit Margin	%	nm	nm	nm	2.0	3.9	Non current liabilities	\$m	9.1	7.8	7.8	7.8	7.8									
Asset Turnover	x	0.9	1.1	1.3	1.5	1.7	Total liabilities	\$m	27.9	24.0	25.7	28.0	31.7									
Return on Assets	%	nm	nm	nm	3.1	6.6	Net assets	\$m	33.8	32.2	28.2	30.0	34.4									
Leverage	x	1.8	1.7	1.9	1.9	1.9	Share capital	\$m	73.9	74.3	74.3	74.3	74.3									
Return on Equity	%	nm	nm	nm	5.9	12.8	Retained earnings	\$m	(48.7)	(49.9)	(53.8)	(52.0)	(47.6)									
KEY PERFORMANCE INDICATORS						FY19A	FY20A	FY21A	FY22E	FY23E	Other	\$m	8.6	7.8	7.8	7.8						
Regional sales						CASH FLOW																
North America		19.8	20.3	18.5	Net loss for period						\$m	(1.1)	(1.2)	(3.9)	1.8	4.4						
Europe		38.8	32.4	38.8	Depreciation & Amortisation						\$m	3.1	3.8	3.6	5.2	5.0						
Asia Pacific		5.4	4.6	5.4	Changes in working capital						\$m	2.7	0.1	(0.3)	(0.9)	(1.1)						
HALF YEARLY DATA						2H21	1H22	2H22	1H23	2H23	Operating cash flow						\$m	5.2	2.7	(0.6)	6.1	8.3
Total Revenue	\$m	31.9	33.9	38.2	44.0	44.0	Payments for PPE						\$m	(2.2)	(4.1)	(8.0)	(4.0)	(4.0)				
Operating expenses	\$m	(31.4)	(34.0)	(38.3)	(40.5)	(40.5)	Other						\$m	0.4	(0.2)	0.0	0.0	0.0				
EBITDA	\$m	0.8	(0.4)	0.8	3.8	3.8	Investing cash flow						\$m	(1.8)	(4.4)	(8.0)	(4.0)	(4.0)				
EBIT	\$m	(1.2)	(2.3)	(0.9)	1.2	1.2	Equity						\$m	16.3	0.4	0.0	0.0	0.0				
PBT	\$m	(1.6)	(2.3)	(1.6)	0.9	0.9	Lease liability payments						\$m	(1.8)	(2.4)	0.0	0.0	0.0				
Reported NPAT	\$m	(1.7)	(2.9)	(1.0)	0.9	0.9	Net borrowing						\$m	4.5	(4.8)	0.0	0.0	0.0				
						Financing cash flow						\$m	18.9	(6.8)	0.0	0.0	0.0					
						Cash year end						\$m	30.2	21.1	12.5	14.6	18.9					
						Free cash flow						\$m	3.4	(1.7)	(8.6)	2.1	4.3					

Source: SomnoMed, MST Access.

SomnoMed in Prime Position as Business Conditions Improve

SomnoMed continues to execute successfully on its strategy for growth, both in North America and Europe and more locally in Asia Pacific (APAC). Some highlights from the results include:

- **3Q revenue of \$17.3m**, up +9% in constant currency yoy, or up +20% in constant currency on an underlying revenue basis when excluding the one-off COVID-19-related HIC¹ allowance received during the pcp in the Netherlands. Revenue growth in North America and Europe continued the momentum of the prior quarter with the impact of COVID-19 on the clinical, hospital and patient markets continuing to normalise
- **year-to-date revenue of \$51.3m**, up 15% in constant currency yoy

Exhibit 2 – Revenue (Q3) across operating regions

Revenue (A\$000's)	Q3 FY22 (A\$000's)	Q3FY21 (A\$000's)	% Change
North America	5,763	4,054	42%
Europe	10,191	9,009	13%
APAC	1,389	1,289	8%
SOM CORE	17,334	14,352	21%
HIC ¹	-	1,362	
TOTAL	17,344	15,714	10%

Source: SomnoMed.

Exhibit 3 – Revenue (9 months to 31 March) across operating regions

Revenue (A\$000's)	9 months to 31 March 2022 (A\$000's)	9 months to 31 March 2021 (A\$000's)	% Change
North America	17,631	13,551	30%
Europe	29,656	27,591	7%
APAC	3,991	4,034	-1%
SOM CORE	51,278	45,176	14%
HIC ¹	-	1,362	
TOTAL	51,278	46,538	10%

Source: SomnoMed.

- **cashflow from operations of-\$2.2m** on seasonally lower collections against payments of \$1.2m for annual insurance, legal and audit fees, and a \$0.5m increase in stock and inventory to provide for global supply disruptions.
- **total cash expenditure during 3Q of \$3.4m** specifically related to technology investment. The year-to-date technology investment is approximately \$6.3m, primarily associated with the development of Rest Assure®. The company continues to guide to a cash investment in technology initiatives of \$8m in FY22
- **available cash of \$14.8m** as of 31 March 2022, including \$6.7m of borrowings, of which \$2.4m is long-term. Net cash at the end of the period was \$8m.

¹ During Q3 FY21, the company recognised an allowance received from the HICs (Health Care Companies) in the Netherlands as \$1.4 million in revenue. This allowance compensated SOM for a portion of lost managed care income due to COVID-19 in this country. These sums have been partly used to compensate suppliers forming part of the managed care scheme; the impact on profit was detailed in FY21 results

Marketing Campaigns Creating Significant Tailwinds

North America

The North America market experienced another positive quarter:

- **revenues up 42% yoy** (+35% in constant currency), driven by increased investment in sales and marketing efforts in the region driving demand for the product range, especially the Avant and Herbst Advance Elite™
- **continued successful marketing campaigns for the company's proprietary B-Flex comfort liner**, with its properties supporting both comfort and retention.

Europe

The impacts of COVID-19 on most of SomnoMed's markets within Europe reduced during the period, leading to an increase in activity levels on a year-on-year basis. Highlights for the quarter included:

- **revenue of \$10.2m**, up +13% yoy (+15% in constant currency) excluding the effect of HIC on Q3 FY21
- **a >20% increase in volumes over the pcp** across six of the company's core countries within Europe, reflecting deeper penetration of these markets where SomnoMed is the leading Continuous Open Airway Therapy (COAT™) treatment solution for some time
- **record unit sales in March**, with positive reimbursement initiatives contributing to the significant progress made in Germany.

Asia

Asia Pacific quarterly highlights included:

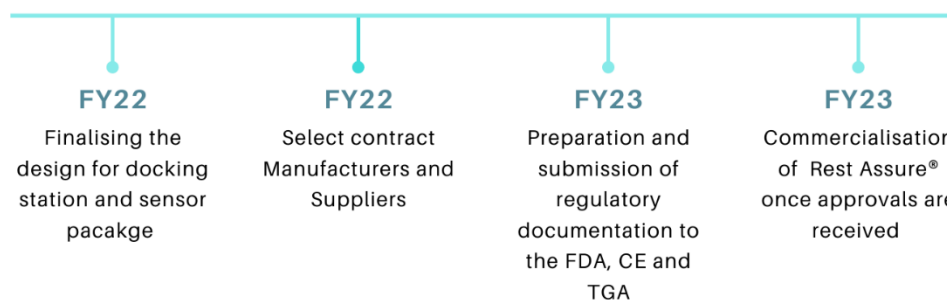
- **revenues up 8% yoy** as the impact of COVID-19 lockdowns and the recent Omicron wave across Australia receded
- **initiatives to advance the adoption of oral appliances within the medical sector**, including continuation of the company's clinical education program and investment in new sales and marketing resources.

Rest Assure® Update

SomnoMed unveiled Rest Assure®, its first ever in-built technology-enabled oral appliance, in February 2022 with the aim of addressing the lack of overnight monitoring and objective data in COAT™, which has been a major barrier to prescription and reimbursement rates to date. The hardware and software are in prototype stage, with a patient validation study underway to confirm algorithms for efficacy and compliance.

In March, SomnoMed presented the technology at World Sleep 2022 in Rome, Italy. The conference (with around 2,200 attendees) is the sleep market's premier global gathering of key commercial players and clinical professionals. SomnoMed was able to introduce Rest Assure® to the market, and the company indicates that it received positive feedback. The international patent application for the Rest Assure® technology has been lodged for all commercial jurisdictions in which SomnoMed currently sells its SomnoDent® appliance.

Exhibit 3 – Rest Assure®: key milestones



Source: SomnoMed.

Sensitivities and Key Risks

With products available in 28 countries and partial/full reimbursement established in many of these, we believe SomnoMed is well positioned to both enhance its leadership position and redefine industry standards with its launch of Rest Assure®, pending FDA approval. Nonetheless, investors should remain mindful of several company-specific and macro risks which could impact our forecasts and valuation.

Development and Regulatory Approval Risk Associated with Rest Assure®

Sensor technology has advanced significantly in recent years with the proliferation of smart devices and wearables. Nonetheless, this is a novel application for oral appliances which does involve development risk and the need for associated regulatory approval to allow commercialisation. These include exceeding the estimated or budgeted costs of development and unexpected delays in development timelines.

Adoption by Sleep Physicians as First-line Therapy

Confidence by sleep physicians to include oral appliances in first-line therapy for mild to moderate cases will depend on clinical validation and experience with the product, which will take robust data and time to build. Notwithstanding the global acceptance of CPAP therapy in first-line treatment, the evolution of OAT for sleep apnea now spans several decades and has been largely driven by innovation at the level of dentists across the globe. This has led to the proliferation of oral appliance designs and inconsistent outcomes which has historically undermined confidence in the category to sleep physicians. We expect the enhancement of SomnoMed's technology with real-time analytics will enhance differentiation of the product.

Pricing – Limited Control over Pricing to End-Patients in the US Market

Related to competitive forces, and because of the cottage industry history of oral appliances and the role of dentists in their development and distribution, pricing has not been consistent across all markets. This inconsistent pricing has distorted the cost-value proposition in some markets and made OAT more expensive appear less competitive compared with CPAP for mild to moderate cases of OSA.

Reimbursement

Reimbursement for both sleep testing and oral appliances is a key driver of demand; however, this varies from country to country. For example, full reimbursement is in place in many Scandinavian countries as compared to partial reimbursement in Mediterranean and Asian countries, including Australia.

Product Liability

SomnoMed could be exposed to product liability claims or other lawsuits resulting from inappropriate medical treatment and/or serious side effects or harm being caused to a patient. However, the company has to date never been subject to such action despite treating over 695,000 patients.

Foreign Exchange Risk

All SomnoMed's production and over 92% of its sales and revenues take place outside Australia. Although the company does not actively hedge its currency exposure, it benefits from a natural hedge, given the number of countries and local currencies in which it operates. However, this does not eliminate foreign exchange risk completely.

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