

## Forecasts back above pre-Intervention levels

We upgrade SomnoMed to OVERWEIGHT with a revised price target of \$0.45 per share. SomnoMed's recent AGM upgrade was driven by a concatenation of events that began with de-risking the manufacturing situation in Manila. Management's intervention there has achieved a 30% increase in capacity and cleared a path to grow sustainably. Fortunately, this has occurred quickly enough to catch the developing tailwinds in OSA core market growth. Our revenue forecasts are back above where they were in 2023, before the Intervention (and change of leadership). Having already confirmed a record 1Q25, SomnoMed lifted FY25 revenue and EBITDA targets to \$105M and >\$7M, respectively. The company is yet to provide longer term profitability goals, but the signals are positive. Our view has always been that the company's previous (pre-Intervention) target of 10% (EBITDA margin) was underwhelming. Europe and USA contribution margins should be targeting 20%-30%. Indeed, Europe has routinely achieved that in prior years and our revised forecasts see it being enabled in USA for the first time in FY27e.

### Key Points

**Trading update and guidance upgrade.** Revised guidance is approximately \$105M revenue and >\$7M EBITDA (+\$5M and +\$2M, respectively, from levels set following FY24 result in August). The company characterises a 30% increase in sustainable manufacturing capacity, which seems key to the upgrade. This has allowed timely fulfilment of backlog orders (ongoing from unseasonably strong 1Q25) and further compression in turnaround times. This, in turn, has led to the recapture of customers lost through the disrupted 2H24 period (new customer onboarding is twice that of a year ago). US demand is bolstered by extrinsic factors including increased access to home sleep testing (e.g. Sunrise, Lofta), elevated OSA awareness (and ENT referrals) owing to Inspire's launch campaign (hypoglossal nerve stimulator) and market share losses from Prosomnus. European demand did not suffer as much disruption in FY24, remains resilient but better organised following a restructure. The intervention has also worked wonders in Australia, driving diligent customer outreach and winning back key accounts (e.g. in WA). Such is the underlying confidence in demand, SomnoMed is contemplating winding back its promotions and mulling a modest price increase for 2H25. The lift in EBITDA guidance reflects improved cost structure (perhaps with a 2H25+ GM benefit).

**Forecasts and model changes.** In resetting EBITDA expectations, we've broken out new, segment-level profitability estimates overleaf in **Figure 2**. The big change is that for the first time we're contemplating a segment margin in USA approaching 20%; from a reorganised core business and prior to any benefit from RestAssure. Europe has always been the most profitable segment but that can seemingly be pushed further now, following restructuring. Model forecasts ~9% top-line growth for FY26-27e which feels conservative, given the potential widening of the diagnosis and referral pathways for OSA (greater awareness thanks to GLP-1 drugs obtaining OSA indications; potential for mild OSA patients to downstage from PAP to oral appliances).

**New price target \$0.45/share.** DCF valuation is increased 8% (earnings driven) supporting a rating upgrade.

Financial summary (Y/E Jun, AUD)	FY23A	FY24A	FY25E	FY26E	FY27E
Sales (\$m)	83.6	91.7	105.3	115.1	125.6
EBITDA norm (\$m)	2.1	0.6	6.5	9.0	11.0
Consensus EBITDA (\$m)			6.1	10.1	11.8
NPAT norm (\$m)	(6.5)	(9.3)	(0.9)	1.1	1.8
EV/Sales (x)	1.1	0.8	0.7	0.6	0.6
EV/EBITDA (x)	42.9	n/m	11.0	7.9	6.7
P/E (x)	n/m	n/m	n/m	76.9	48.3

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

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Recommendation	OVERWEIGHT
12-mth target price (AUD)	\$0.45
Share price @ 2-Dec-24 (AUD)	\$0.40
Forecast 12-mth capital return	15.1%
Forecast 12-mth dividend yield	0.0%
<b>12-mth total shareholder return</b>	<b>15.1%</b>

Market cap (\$m)	85.4
Enterprise value (\$m)	70.2
Shares on issue (m)	216.1
Sold short (%)	0.0
ASX All Ords weight (%)	0.0
Median turnover/day (\$m)	0.0

### Dr Shane Storey

[shane.storey@wilsonsadvisory.com.au](mailto:shane.storey@wilsonsadvisory.com.au)

Tel. +61 7 3212 1351

### 12-mth price performance (\$)



	1-mth	6-mth	12-mth
Abs return (%)	27.4	41.1	(10.2)
Rel return (%)	22.7	29.2	(24.9)

Key changes		29-Aug	After	Var %
Sales	FY25E	99.9	105.3	5%
	FY26E	109.7	115.1	5%
	FY27E	117.8	125.6	7%
EBITDA	FY25E	4.8	6.5	34%
norm	FY26E	8.7	9.0	4%
(\$m)	FY27E	9.9	11.0	11%
<b>Price target</b>		<b>0.42</b>	<b>0.45</b>	<b>8%</b>
<b>Rating</b>		<b>M/W</b>	<b>O/W</b>	

## 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)	FY23A	FY24A	FY25E	FY26E	FY27E
Sales	83.6	91.7	105.3	115.1	125.6
EBITDA norm	2.1	0.6	6.5	9.0	11.0
EBIT norm	(3.0)	(5.2)	0.2	2.0	3.1
PBT norm	(5.6)	(8.3)	0.1	1.8	2.9
NPAT norm	(6.5)	(9.3)	(0.9)	1.1	1.8
NPAT reported	(7.9)	(12.2)	(0.9)	1.1	1.8
EPS norm (cents)	(7.7)	(4.3)	(0.4)	0.5	0.8
DPS (cents)	0.0	0.0	0.0	0.0	0.0

Growth (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Sales	15.2	9.6	14.9	9.2	9.2
EBITDA norm	61.5	(71.4)	979.1	39.2	21.8
NPAT norm	64.0	44.0	(90.0)	(219.0)	59.1
EPS norm (cents)	61.7	(44.0)	(90.0)	(219.0)	59.1
DPS (cents)	n/m	n/m	n/m	n/m	n/m

Margins and returns (%)	FY23A	FY24A	FY25E	FY26E	FY27E
EBITDA margin	2.5	0.7	6.1	7.8	8.7
EBIT margin	(3.6)	(5.6)	0.2	1.7	2.4
PBT margin	(6.7)	(9.1)	0.1	1.6	2.3
NPAT margin	(7.7)	(10.2)	(0.9)	1.0	1.4
ROA	n/m	n/m	0.3	2.6	3.7
ROIC	n/m	n/m	0.6	5.8	7.2
ROE	n/m	n/m	n/m	2.3	3.2

Interims (\$m)	2H23A	1H24A	2H24A	1H25E	2H25E
Sales	43.7	45.1	46.5	51.5	53.9
EBITDA norm	1.3	(1.1)	1.7	2.6	3.8
EBIT norm	(1.5)	(4.0)	(1.2)	(0.4)	0.6
PBT norm	(3.6)	(5.5)	(2.9)	(0.5)	0.6
NPAT norm	(3.6)	(6.3)	(3.0)	(1.3)	0.3
NPAT reported	(4.2)	(6.3)	(5.9)	(1.3)	0.3
EPS norm (cents)	(4.3)	(6.8)	(1.4)	(0.6)	0.2
DPS (cents)	0.0	0.0	0.0	0.0	0.0

Stock specific	FY23A	FY24A	FY25E	FY26E	FY27E
USA revenue (\$m)	30.2	32.9	41.5	43.9	49.5
EMEA revenue (\$m)	47.3	52.5	56.8	63.4	68.1
APAC revenue (\$m)	6.1	6.3	7.0	7.8	8.0

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

## Investment Thesis

We upgrade SomnoMed to OVERWEIGHT with a revised price target of \$0.45 per share. SomnoMed's recent AGM upgrade was driven by a concatenation of events that began with de-risking the manufacturing situation in Manila. Management's intervention there has achieved a 30% increase in capacity and cleared a path to grow sustainably. Fortunately, this has occurred quickly enough to catch the developing tailwinds in OSA core market growth.

## 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)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash & equivalents	12.0	16.2	15.0	15.4	12.8
Current receivables	11.1	12.4	13.5	15.6	26.0
Current inventory	4.1	6.3	7.0	7.4	5.6
PPE	6.2	5.8	5.5	5.5	5.5
Intangibles	19.0	20.3	21.2	22.3	24.0
Total assets	62.5	69.8	71.1	75.1	83.0
Current payables	12.8	13.3	14.0	15.5	17.0
Total debt	16.7	1.0	1.0	1.0	1.0
Other liabilities	8.3	8.2	8.2	8.2	8.2
Total liabilities	40.1	24.8	25.5	27.0	28.5
Minorities	0.0	0.0	0.0	0.0	0.0
Shareholders equity	22.4	45.0	45.6	48.1	54.5

Cash flow (\$m)	FY23A	FY24A	FY25E	FY26E	FY27E
Operating cash flow	(3.9)	(6.3)	4.8	7.5	9.1
Maintenance capex	(3.2)	(4.0)	(6.0)	(7.0)	(7.9)
Free cash flow	(7.1)	(10.3)	(1.2)	0.4	1.2
Growth capex	(2.3)	0.0	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	(3.3)	(6.8)	0.0	0.0	0.0
Cash flow pre-financing	(12.6)	(17.1)	(1.2)	0.4	1.2
Funded by equity	0.0	38.1	0.0	0.0	0.0
Funded by cash/debt	3.5	(42.3)	1.2	(0.4)	(1.2)

Liquidity	FY23A	FY24A	FY25E	FY26E	FY27E
Cash conversion (%)	28.6	(339.7)	75.6	84.1	84.1
Net debt (\$m)	4.7	(15.2)	(13.9)	(14.4)	(11.8)
Net debt / EBITDA (x)	2.2	(25.3)	(2.2)	(1.6)	(1.1)
ND / ND + Equity (%)	17.4	(50.8)	(44.0)	(42.5)	(27.7)
EBIT / Interest expense (x)	(1.1)	(1.6)	1.8	17.3	26.9

Valuation	FY23A	FY24A	FY25E	FY26E	FY27E
EV / Sales (x)	1.1	0.8	0.7	0.6	0.6
EV / EBITDA (x)	42.9	n/m	11.0	7.9	6.7
EV / EBIT (x)	n/m	n/m	n/m	36.2	24.1
P / E (x)	n/m	n/m	n/m	76.9	48.3
P / BV (x)	1.5	1.9	1.9	1.8	1.6
FCF yield (%)	(21.3)	(12.1)	(1.4)	0.5	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)	84.0	216.1	216.1	216.1	216.1

# Outlook

## Guidance

Revenue guidance upgraded from (approximately) \$100M to \$105M. EBITDA guidance upgraded from >\$5M to >\$7M.

## Changes to forecasts

Figure 1: Summary of changes FY25-27E

Y/E Jun, AUD		FY25E			FY26E			FY27E		
		Old	New	% chg	Old	New	% chg	Old	New	% chg
Sales	\$m	99.9	<b>105.3</b>	5.5%	109.7	<b>115.1</b>	4.9%	117.8	<b>125.6</b>	6.7%
EBITDA norm	\$m	4.8	<b>6.5</b>	34.2%	8.7	<b>9.0</b>	3.9%	9.9	<b>11.0</b>	10.7%
NPAT norm	\$m	(1.6)	<b>(0.9)</b>	42.4%	2.3	<b>1.1</b>	(51.1%)	2.8	<b>1.8</b>	(36.3%)
EPS norm	cps	(0.7)	<b>(0.4)</b>	42.4%	1.0	<b>0.5</b>	(51.1%)	1.3	<b>0.8</b>	(36.3%)

Source: SOM, Wilsons Advisory.

Figure 2: Revised SOM estimates FY22-27e

Y/E Jun, AUD		FY22A	FY23A	1H24	2H24	FY24A	1H25e	2H25e	FY25E	FY26E	FY27E
<b>SomnoMed core revenue</b>	<b>\$m</b>	<b>72.6</b>	<b>83.6</b>	45.1	46.5	<b>91.7</b>	51.5	53.9	<b>105.3</b>	<b>115.1</b>	<b>125.6</b>
USA	\$m	24.7	30.2	16.6	16.2	32.9	20.2	21.2	41.5	45.0	49.5
EMEA	\$m	42.5	47.3	25.2	27.2	52.5	27.6	29.3	56.8	62.5	68.1
AsiaPac	\$m	5.4	6.1	3.2	3.1	6.3	3.7	3.4	7.0	7.5	8.0
Gross profit	\$m	44.3	51.9	28.1	27.1	55.1	32.0	33.8	65.9	72.2	78.9
- Gross margin	\$m	61.0%	62.1%	62.2%	58.2%	60.2%	62.3%	62.8%	62.5%	62.8%	62.8%
<b>Segment profits</b>	<b>\$m</b>	<b>12.6</b>	<b>14.0</b>	6.2	5.0	<b>11.2</b>	10.4	11.6	<b>22.1</b>	<b>25.6</b>	<b>28.7</b>
USA	\$m	3.3	3.8	1.8	2.3	4.1	3.8	4.1	7.9	8.8	9.9
EMEA	\$m	8.2	9.3	3.8	3.7	7.5	6.3	7.3	13.6	16.0	17.9
AsiaPac	\$m	1.2	0.9	0.6	(1.0)	(0.4)	0.4	0.3	0.6	0.8	0.8
Corporate, R&D, other	\$m	(11.3)	(11.9)	(7.3)	(3.3)	(10.6)	(7.8)	(7.8)	(15.6)	(16.6)	(17.7)
<b>EBITDA (\$m)</b>	<b>\$m</b>	<b>1.3</b>	<b>2.1</b>	(1.1)	1.7	<b>0.6</b>	2.6	3.8	<b>6.5</b>	<b>9.0</b>	<b>11.0</b>
- EBITDA margin	\$m	1.8%	2.5%	-2.4%	3.7%	0.7%	5.1%	7.1%	6.1%	7.8%	8.7%
USA	\$m	3.3	4.1	1.8	2.3	4.1	3.8	4.1	7.9	8.8	9.9
EMEA	\$m	8.2	10.0	3.8	3.7	7.5	6.3	7.3	13.6	16.0	19.0
AsiaPac	\$m	1.2	0.6	0.6	(1.0)	(0.4)	0.4	0.3	0.6	0.8	1.2
Unallocated costs	\$m	(11.3)	(12.7)	(7.3)	(3.3)	(10.6)	(7.8)	(7.8)	(15.6)	(16.6)	(19.2)
<b>NPAT (norm)</b>	<b>\$m</b>	<b>(3.9)</b>	<b>(6.5)</b>	(6.3)	(3.0)	<b>(9.3)</b>	(1.3)	0.3	<b>(0.9)</b>	<b>1.1</b>	<b>1.8</b>
EPS	cps	(4.8)	(7.7)	(6.8)	(1.4)	(4.3)	(0.6)	0.2	(0.4)	0.5	0.8
Net debt	\$m	(8.8)	4.7	(0.9)	(15.2)	(15.2)	(13.9)	(13.9)	(13.9)	(14.4)	(15.6)
Operating cash flow	\$m	1.9	(3.9)	(4.6)	(1.8)	(6.3)	1.7	3.1	4.8	7.5	9.1
<b>Growth</b>											
- Group revenue growth		16%	15%	13%	7%	10%	14%	16%	15%	9%	9%
- USA revenue growth		34%	22%	9%	9%	9%	22%	31%	26%	9%	10%
- EMEA revenue growth		9%	11%	17%	6%	11%	9%	8%	8%	10%	9%
- AsiaPac revenue growth		3%	13%	5%	2%	3%	13%	9%	11%	7%	6%
<b>Profitability</b>											
- USA segment margin		13.5%	13.6%	10.8%	14.2%	12.5%	18.5%	19.3%	18.9%	19.5%	20.0%
- EMEA segment margin		19.2%	21.2%	15.0%	13.6%	14.3%	22.9%	24.9%	23.9%	25.6%	27.9%
- AsiaPac segment margin		21.4%	10.6%	19.8%	-32.4%	-5.7%	10.3%	7.5%	8.9%	11.2%	15.3%

Source: SOM, Wilsons Advisory.

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For more information please phone: 1300 655 015 or email: [publications@wilsonsadvisory.com.au](mailto:publications@wilsonsadvisory.com.au)