

## M/W: Pricing in structural innovation

We maintain our MARKET WEIGHT rating on SomnoMed with a revised \$2.40 price target (+45%). SomnoMed's stock has outperformed over the last 12 months in anticipation of new technology innovations to deliver some long-awaited structural changes to the US COAT™ (Continuous Open Airway Therapy) marketplace. Utilisation in the US market is 7%-8% versus 15%-50% in Europe. SomnoMed has not disclosed the details of its innovation plan but our thinking is guided by contemplating the two major roadblocks to broader US adoption: a) facilitating multidisciplinary treatment; and b) giving sleep physicians confidence in COAT's efficacy (versus CPAP) and ensuring longitudinal quality of care. Broadly, we expect there is a novel technology/data aspect in the SomnoMed R&D pipeline. Systematic reviews and meta-analyses already attest to COAT's effectiveness but studies that formally evaluate 'the effectiveness equation' are novel.

### Key points

**Earnings call takeaways.** SOM pre-announced FY21 revenues of \$62.7M at 4Q update in July, up 9% vs pcp but a 3% miss to our prior forecasts, owing to US weakness (US -9% vs pcp). Underlying EBITDA of \$3.9M was down 17% vs pcp and well below our forecasts (-46%) owing to a step change in R&D investment in their new technology platform. Operating cash flow of \$2.7M was in line with forecasts. **Geographies:** US momentum from 4Q21 (+22% QoQ) driving larger internal targets for FY22. EU and APAC both showed solid growth (+20% and +17% respectively vs pcp). Expect lockdowns to soften 1H22 APAC sales. EU outlook positive also with markets re-opening, with France expected to lead growth alongside Belgium/Germany and other Nordics (Finland/Norway) coming online. **Gross Margin:** Despite EBITDA miss gross margins were maintained >70% for MAS segment reflecting margin expansion over FY20 due to increased digital manufacture adoption and sales mix. **Guidance:** ≥15% revenue growth with breakeven EBITDA and ~\$8M cash R&D investment over FY22.

**Model changes.** We make minor adjustments to revenues (+2-3%) however significant cuts to EBITDA in FY22e (-97%) owing to increased R&D investment per guidance.

**Valuation.** Fundamental DCF valuation is up 9% to \$1.80 per share reflecting a roll-forward to FY22e as base year. We have set our PT higher at \$2.40 in anticipation of new technologies and strategies which seem likely to be announced over the next 12 months. These are not disclosed but we share thoughts in this note on eight potential areas for innovation that could lead to a material lift in the USTAM.

### Risks and catalysts

**Risks:** a) adverse reimbursement; b) market access barriers; c) adverse clinical positioning versus CPAP therapy; d) competition; e) pricing. **Catalysts:** a) exceeding sales targets; b) gross margin expansion; c) development of earnings leverage; d) new product launches.

Earnings forecasts					
Year-end June (AUD)	FY20A	FY21A	FY22F	FY23F	FY24F
NPAT rep (\$m)	-1.1	-1.2	-3.7	3.9	4.2
NPAT norm (\$m)	-0.2	-0.8	-3.7	3.9	4.2
Consensus NPAT (\$m)			3.3	5.3	4.6
EPS norm (cps)	-0.3	-0.8	-4.1	4.4	4.6
EPS growth (%)	-102.7	-151.3	-387.0	206.1	5.2
P/E norm (x)	-709.8	-282.5	-58.0	54.7	52.0
EV/EBITDA (x)	38.1	45.9	828.2	20.2	17.1
FCF yield (%)	1.7	0.3	-1.6	1.2	2.1
DPS (cps)	0.0	-0.1	0.0	0.0	0.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Franking (%)	0	0	0	0	0

Source: Company data, Wilsons estimates, Refinitiv

### Wilsons Equity Research

Analyst(s) who own shares in the Company: n/a  
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Recommendation	MARKET WEIGHT
<b>12-mth target price (AUD)</b>	<b>\$2.40</b>
Share price @ 20-Aug-21 (AUD)	\$2.39
Forecast 12-mth capital return	0.4%
Forecast 12-mth dividend yield	0.0%
<b>12-mth total shareholder return</b>	<b>0.4%</b>
Market cap	\$198m
Enterprise value	\$179m
Shares on issue	83m
Sold short	0.0%
ASX 300 weight	n/a
Median turnover/day	\$0.0m

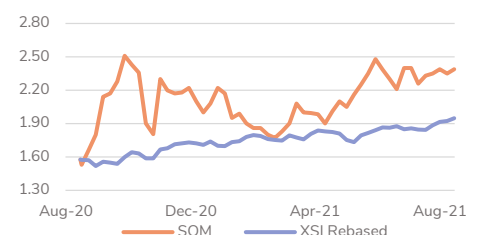
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### 12-mth price performance (\$)

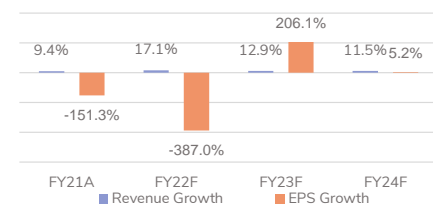


	1-mth	6-mth	12-mth
<b>Abs return (%)</b>	3.9	27.8	51.7
<b>Rel return (%)</b>	-0.5	17.8	28.1

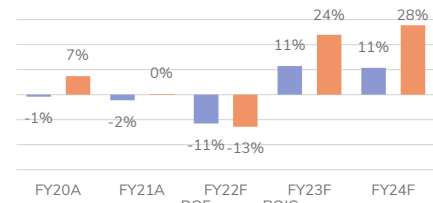
### Key changes

		24-Feb	After	Var %
<b>NPAT:</b>	<b>FY22F</b>	3.2	-3.7	<-99%
<b>norm</b>	<b>FY23F</b>	3.9	3.9	0.3%
	<b>FY24F</b>		4.2	
<b>EPS:</b>	<b>FY22F</b>	3.8	-4.1	<-99%
<b>norm</b>	<b>FY23F</b>	4.7	4.4	-6.7%
	<b>FY24F</b>		4.6	
<b>DPS:</b>	<b>FY22F</b>	0.0	0.0	0.0%
	<b>FY23F</b>	0.0	0.0	0.0%
	<b>FY24F</b>		0.0	
<b>Pricetarget:</b>		1.65	2.40	45.5%
<b>Rating:</b>		M/W	M/W	

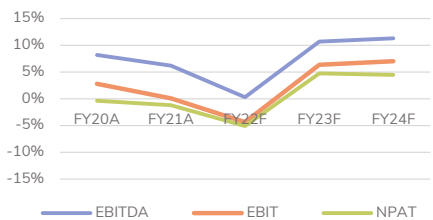
## Growth rates



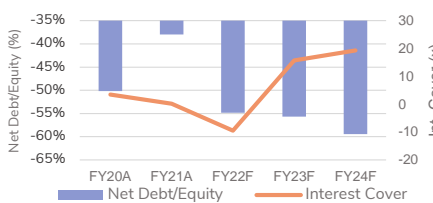
## Returns



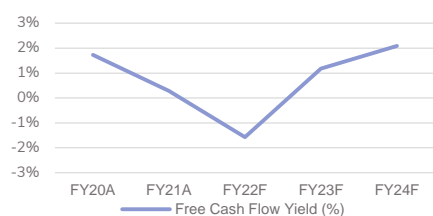
## Margin trends



## Solvency



## Free cash flow yield



## Interims (\$m)

	1H21A	2H21A	1H22E	2H22E
Sales revenue	30.8	31.9	35.6	37.8
EBITDA	3.2	0.7	0.2	0.0
EBIT	1.3	-1.3	-1.4	-1.8
<b>Net profit</b>	<b>0.8</b>	<b>-1.6</b>	<b>-1.6</b>	<b>-2.1</b>
<b>Norm EPS</b>	<b>0.6</b>	<b>-1.7</b>	<b>-1.8</b>	<b>-2.3</b>
EBIT/sales (%)	4.4	-4.0	-3.8	-4.8
Dividend (c)	0.0	-0.1	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0
Payout ratio (%)	0.0	5.8	0.0	0.0
Adj payout (%)	0.0	0.0	0.0	0.0

## Key assumptions

	FY17A	FY18A	FY19A	FY20A	FY21A	FY22F	FY23F	FY24F
Revenue Growth (%)	11.9	29.0	-7.4	-2.8	9.4	17.1	12.9	11.5
EBIT Growth (%)	-747.2	178.2	-132.0	-38.2	-96.4	-5,544.4	-265.8	22.8
NPAT Growth (%)	-1,534.2	202.3	-203.7	-102.9	256.5	392.4	-206.1	5.2
<b>EPS Growth (%)</b>	<b>-1,476.9</b>	<b>191.8</b>	<b>-198.7</b>	<b>-102.7</b>	<b>151.3</b>	<b>387.0</b>	<b>-206.1</b>	<b>5.2</b>
EBIT / Sales (%)	-5.9	-12.8	4.4	2.8	0.1	-4.3	6.4	7.0
Tax Rate (%)	-14.3	-19.8	24.6	102.8	-85.8	-5.7	0.0	0.0
<b>ROA (%)</b>	<b>-7.1</b>	<b>-19.8</b>	<b>6.0</b>	<b>2.5</b>	<b>0.1</b>	<b>-4.8</b>	<b>7.7</b>	<b>9.1</b>
ROE (%)	-7.4	-25.6	33.1	-0.6	-2.1	-10.1	10.2	10.1

SomnoMed EBITDA (\$m)	2.4	3.9	4.9	4.7	5.5	0.2	8.9	10.5
RSS EBITDA (\$m)	-4.1	-10.4	-10.2	0.0	0.0	0.0	0.0	0.0

## Financial ratios

	FY17A	FY18A	FY19A	FY20A	FY21A	FY22F	FY23F	FY24F
PE (x)	-54.2	-18.6	18.8	-709.8	-282.5	-58.0	54.7	52.0
EV/EBITDA (x)	-105.5	-27.6	36.4	38.1	45.9	828.2	20.2	17.1
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF yield (%)	-2.6	-5.8	-4.0	1.7	0.3	-1.6	1.2	2.1
Payout ratio (%)	0.0	0.0	0.0	0.0	12.0	0.0	0.0	0.0
Adj payout (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

## Profit and loss (\$m)

	FY17A	FY18A	FY19A	FY20A	FY21A	FY22F	FY23F	FY24F
Sales revenue	49.3	63.6	58.9	57.3	62.7	73.4	82.9	92.5
EBITDA	-1.7	-6.5	4.9	4.7	3.9	0.2	8.9	10.5
Depn & amort	1.2	1.7	2.3	3.1	3.8	3.4	3.6	4.0
<b>EBIT</b>	<b>-2.9</b>	<b>-8.2</b>	<b>2.6</b>	<b>1.6</b>	<b>0.1</b>	<b>-3.2</b>	<b>5.3</b>	<b>6.5</b>
Net interest expense	-0.1	0.0	0.0	0.5	0.5	0.3	0.3	0.3
Tax	0.4	1.6	0.6	1.2	0.3	0.2	0.0	0.0
Minorities/pref divs	-0.8	-2.1	0.0	0.0	0.0	0.0	1.0	2.0
Equity accounted NPAT	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net profit (pre-sig items)</b>	<b>-2.4</b>	<b>-7.7</b>	<b>2.0</b>	<b>0.0</b>	<b>-0.8</b>	<b>-3.7</b>	<b>3.9</b>	<b>4.2</b>
Abns/exts/signif	-1.0	-0.9	-18.4	-1.1	-0.4	0.0	0.0	0.0
<b>Reported net profit</b>	<b>-3.3</b>	<b>-8.6</b>	<b>-16.4</b>	<b>-1.1</b>	<b>-1.2</b>	<b>-3.7</b>	<b>3.9</b>	<b>4.2</b>

## Cash flow (\$m)

	FY17A	FY18A	FY19A	FY20A	FY21A	FY22F	FY23F	FY24F
EBITDA	-1.7	-6.5	4.9	4.7	3.9	0.2	8.9	10.5
Interest & tax	-1.2	-0.6	-0.9	-1.4	-1.1	0.5	-1.6	-1.9
Working cap/other	0.2	-2.4	-10.5	1.9	-0.1	-0.9	-1.0	-0.5
<b>Operating cash flow</b>	<b>-2.7</b>	<b>-9.5</b>	<b>-6.5</b>	<b>5.2</b>	<b>2.7</b>	<b>-0.1</b>	<b>6.3</b>	<b>8.1</b>
Maintenance capex	-2.4	-2.0	-1.3	-1.8	-2.2	-3.0	-4.0	-4.0
<b>Free cash flow</b>	<b>-5.1</b>	<b>-11.5</b>	<b>-7.9</b>	<b>3.4</b>	<b>0.6</b>	<b>-3.1</b>	<b>2.3</b>	<b>4.1</b>
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Growth capex	0.0	0.0	0.0	0.0	-2.0	0.0	0.0	0.0
Invest/disposals	-0.3	-0.2	-0.3	-0.4	0.0	0.0	0.0	0.0
Oth investing/finance flows	-0.1	-0.6	-0.6	-2.2	-2.7	0.0	0.0	0.0
<b>Cash flow pre-financing</b>	<b>-5.5</b>	<b>-12.3</b>	<b>-8.8</b>	<b>0.9</b>	<b>-4.1</b>	<b>-3.1</b>	<b>2.3</b>	<b>4.1</b>
Funded by equity	2.4	11.2	0.0	16.9	0.4	0.0	0.0	0.0
Funded by debt	0.0	0.0	3.0	4.5	-4.8	0.0	0.0	0.0
Funded by cash	3.1	1.1	5.8	-22.2	8.5	3.1	-2.3	-4.1

## Balance sheet summary (\$m)

	FY17A	FY18A	FY19A	FY20A	FY21A	FY22F	FY23F	FY24F
Cash	14.2	13.4	7.7	30.2	21.1	25.4	27.7	31.8
Current receivables	10.2	13.6	10.6	7.6	10.6	12.0	13.5	14.1
Current inventories	1.9	2.0	1.9	2.2	2.3	3.1	3.0	3.3
Net PPE	4.5	6.6	3.2	10.2	4.7	1.6	1.4	0.8
Intangibles/capitalised	10.4	10.1	11.2	11.0	17.2	18.7	19.7	20.6
<b>Total assets</b>	<b>41.2</b>	<b>45.7</b>	<b>34.8</b>	<b>61.7</b>	<b>56.2</b>	<b>61.2</b>	<b>65.7</b>	<b>71.2</b>
Current payables	8.0	8.4	8.1	8.6	10.6	8.0	8.0	8.0
Total debt	0.0	1.4	3.6	13.2	8.9	7.5	7.5	7.5
<b>Total liabilities</b>	<b>10.3</b>	<b>12.9</b>	<b>16.9</b>	<b>27.9</b>	<b>24.0</b>	<b>28.6</b>	<b>29.4</b>	<b>30.2</b>
<b>Shareholder equity</b>	<b>31.0</b>	<b>32.8</b>	<b>17.8</b>	<b>33.8</b>	<b>32.2</b>	<b>32.7</b>	<b>36.4</b>	<b>41.0</b>
<b>Total funds employed</b>	<b>31.0</b>	<b>34.2</b>	<b>21.4</b>	<b>47.0</b>	<b>41.1</b>	<b>40.1</b>	<b>43.8</b>	<b>48.4</b>



## Potential focus points for SomnoMed innovation

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- 1. Clinical validation of "effectiveness equation".** Studies that can objectively and directly measure real-world patient compliance with CPAP vs COAT therapy alongside efficacy (i.e. AHI) will be critical to further clinical adoption and reimbursement/payer support. One of the current challenges the oral appliance category faces in comparing their devices to CPAP is the way in which CPAP compliance is measured (currently  $\geq 4\text{hrs}/28\text{days}$ ) which discounts what a fully compliant patient would experience (i.e. ideally 8hrs use per night, every night). Clinical studies that are currently underway will evaluate compliance on a per hour per night basis to allow for like-for-like comparisons of AHIs per compliant hour within their "effectiveness equation" that looks at total benefit, not just clinical benefit in an ideal setting (i.e. 100% compliant patients). This could be a powerful motivator for clinical and payer adoption given the high cost of CPAP therapy and its lower compliance rate.
- 2. Device-level measurement of AHI/compliance.** As we have [speculated before](#), the use of the onboard chip in the SomnoDent device/s to capture compliance data (i.e. hours used per night) as well as measure blood O<sub>2</sub> levels and calculate AHI would transform the category for patients and sleep physicians. Immediate feedback for patients on treatment efficacy has had a positive impact on CPAP compliance in recent years. If the information can be shared with sleep physicians in real time (analogous to ResMed's Air Solutions software) the knowledge that patients are well treated longitudinally would solve a major barrier to prescribing.
- 3. Multidisciplinary portal for sleep physicians and dentists to facilitate collaborative care.** SomnoMed has partnered with AppNea and others to improve information sharing and ensure accurate, timely patient follow-up.
- 4. Accurate identification of COAT candidates.** Being able to predict, identify and capture mild to moderate OSA patients, who are likely to respond to oral appliance therapy is a potential focus. Oral appliances are a one-off purchase for payers. The initial candidacy question is potentially as important for payers than ongoing treatment compliance verification.
- 5. Health economic analyses to highlight cost savings of COAT over CPAP.** SomnoMed has already undertaken several Health Econ analyses projects to highlight the cost savings benefits of their COAT devices over CPAP at a government and payer level. We understand a current UK analysis has identified cost savings down the Clinical Commissioning Group (CCG) level in order to inform and support NHS decision making around COAT reimbursement. We assess that clinical data objectively validating SomnoMed's "effectiveness equation" will be critical to future Health Economic studies.
- 6. Streamlined reimbursement pathway in USA.** Oral appliance therapy is a multidisciplinary field that taps into separate pools of medical and dental reimbursement. We understand that several providers in the market are working to automate the coding, coverage and payment processes to facilitate easier market access.
- 7. US managed care programs catering to payers.** Development and refinement of managed care programs that cater to payers (insurers) and allow member access to treatment at a fixed price for the payer. Managed care practice is mature in some of SomnoMed's European markets. The challenge in the US has traditionally been to convince dentists to accept lower per-patient revenue in exchange for higher volumes.
- 8. Monetisation of connected care; getting on the SaaS train.** The ability for SOM's new technology to allow for direct from patient data analysis that can be cloud connected to allow for real-time evaluation of patient compliance and apnoea control would support clinical adoption by sleep physicians, knowing that they can monitor their patient's condition after referral to a dentist. This is a key impediment to adoption of COAT by some clinicians, over CPAP particularly in the US market where collaborative care is less of the norm than in Europe. The obvious predicate here is ResMed's SaaS solutions that supports its connected CPAP devices. This could provide a recurring revenue stream for SomnoMed (SaaS) which it has lacked until now.

## Result review

### Investment in new technology platform the predominant theme

#### Income statement notes

**Underlying EBITDA down vs FY20.** Product gross margins were maintained (~70% level) despite sharp underlying EBITDA decline (-17% vs pcp) reflecting investment in their new technology platform under development. The key investment step-up is at the corporate/head office level (+54% vs pcp) which we understand is due to key hires to support new platform technology, encompassing clinical, IT and reimbursement resources.

**Government assistance normalised EBITDA shows growth vs pcp (+33%).** We remember that FY20 EBITDA of \$4.7M included government assistance packages during COVID (i.e. JobKeeper) which were significantly reduced in FY21 (\$2.3M in FY20 vs \$0.7M in FY21). On a normalised basis (ex-government payments) FY21 EBITDA was up 33% vs pcp (\$2.4M FY20 vs \$3.2M FY21 EBITDA) reflecting underlying business growth.

**Gross margins maintained.** Gross profit was up 14% vs pcp with margin expansion evident. Directionally, we saw improvement across group level (60.4%) and MAS (70.5%) gross margins, both up vs pcp (+200bps and 140bps respectively). This margin expansion highlights that SOM's product sales and manufacturing divisions continue to leverage efficiencies, led by increased adoption of intraoral scanning in the US market and subsequent uptake of digitally manufactured devices (i.e. Avant, Herbst Elite) which are higher ASP point and higher margin. Directionally we can expect to see this trend continue with MAS gross margins increasing over and above 70% level as digitally manufactured devices account for a greater proportion of sales mix.

**Table 1. SomnoMed's FY21 results versus pcp and our forecasts.**

(\$ in mn)	FY20a	FY21a	%chg	Forecast	%chg	Var (abs\$)	%var
USA	20.3	18.5	-9%	18.5	-9%	-	0%
Europe	32.4	38.8	20%	38.8	20%	-	0%
APAC	4.6	5.4	17%	5.4	17%	-	0%
<b>Core revenue</b>	<b>57.3</b>	<b>62.7</b>	<b>9%</b>	<b>62.7</b>	<b>9%</b>	-	<b>0%</b>
COGS	24.2	24.9	3%	25.4	5%	(0.4)	-2%
Gross profit	33.1	37.7	14%	37.3	13%	0.4	1%
Opex	28.4	33.8	19%	30.0	6%	3.8	13%
<b>Underlying EBITDA</b>	<b>4.7</b>	<b>3.9</b>	<b>-17%</b>	<b>7.3</b>	<b>55%</b>	<b>(3.4)</b>	<b>-46%</b>
Interest, other	0.5	0.5	nm	0.4	nm	0.1	nm
Tax	1.2	0.3	nm	0.8	nm	(0.5)	nm
Reported NPAT	(1.1)	(1.1)	nm	2.3	nm	(3.4)	nm
<b>NPAT (normalised)</b>	<b>7.4</b>	<b>(2.0)</b>	<b>nm</b>	<b>(0.4)</b>	<b>nm</b>	<b>(1.6)</b>	<b>nm</b>
Reported EPS (cps)	(1.8)	(1.52)	nm	2.7	nm	(4.2)	nm
<b>Operating cash flow</b>	<b>5.2</b>	<b>2.7</b>	<b>-48%</b>	<b>6.0</b>	<b>15%</b>	<b>(3.3)</b>	<b>120%</b>
<b>% of net revenue</b>	<b>FY20a</b>	<b>FY21a</b>		<b>Wilsons</b>			
Gross margin	58.4%	60.4%		59.5%			
MAS gross profit	69.1%	70.5%		67.5%			
EBITDA margin	8.2%	6.2%		11.6%			

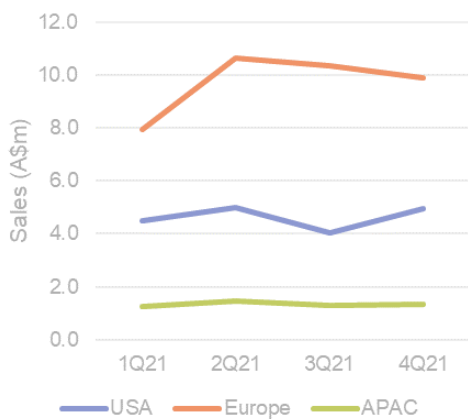
Source: SOM, Wilsons.



## Geographical sales commentary

- North America.** FY21 US sales down 9% vs pcp. SOM continues to face reimbursement and payment headwinds in the US market due to the interactions between sleep physicians and dentists. We assess that SomnoMed's US client base is largely intact having been rebuilt over late FY19-early FY20 following the RSS escapade which caused damaging channel conflict. A strong 4Q21 sales momentum taken into FY22 bodes well for FY22 should it be maintained, with initial 1Q22 trading (July-Aug) supportive of this. We do not expect SOM to be a significant beneficiary of the Philip's CPAP recall in US market given the differences in reimbursement and HME's wanting to keep patients on CPAP within their network.
- Europe.** FY21 EU sales up 20% vs pcp. SomnoMed continues to generate growth in its European business from a) expansion into new territories; b) more favourable reimbursement in existing/new markets, and c) growth within existing dominant markets where it is 1<sup>st</sup> line SOC (i.e. Sweden, Netherlands). Greater possibility of benefit from Philip's recall in EU market, but expect it to manifest over a longer period of time given how European clinicians have typically reacted cautiously to change.
- APAC.** FY21 APAC sales up 17% vs pcp. Management commentary suggests 1Q22 trading thus far is >20% below normal due to extensive eastern seaboard lockdowns. As a reminder Australia represents ~85% of APAC segment. APAC segment only ~9% of total FY21 sales.

Figure 1. Geographical sales split by quarter for FY21.



Source. Wilsons, SOM.

## Outlook

### Guidance

SomnoMed are one of the few medical device companies to provide FY22 guidance, with the caveat of unforeseeable COVID impacts.

#### FY22 guidance:

- Revenue growth of at least 15% vs pcp.
- Underlying EBITDA breakeven in FY22 highlighting significant reinvestment in the business/R&D pipeline.
- R&D cash investment of ~\$8M to support transformational technology projects (2 major projects thus undisclosed).
- Will bring on \$10M credit facility – close to finalisation – to support balance sheet.

**Assumption that clinical settings better equipped to deal with ongoing COVID impacts.** SomnoMed's confidence in guiding to  $\geq 15\%$  revenue growth despite some lingering COVID-induced turbulence in the OSA market appears to stem from changes in response at the hospital/clinic level. Unlike the first waves in FY20, hospitals and sleep centres are controlling the effects of subsequent Delta waves more easily/are more prepared, with less sharp drop-offs in OSA patient diagnoses and clinical visits observed.

### Changes to forecasts

**Revenue.** Here we moderate our revenue forecasts only moderately (+2-3%) noting that an incoming "step change" in revenues due to the transformational technology piece is anticipated by SOM. Given the dearth of detail at this point around this technology investment we maintain our current annual growth trajectory which tracks within the middle single digit range (12-17%) over our forecast period.

Geographically we moderate FY22 APAC revenues (-10%) noting the impacts of COVID lockdowns to 1H22 in major states, whilst revising EU and US growth (+3.3% and +4.5% respectively) in FY22 noting a strong rebound in market recovery (in US) and further contribution of new EU markets in FY22 (i.e. Switzerland, Germany both with reimbursement wins). We also update for our latest FX assumptions.

**EBITDA.** Based on current guidance of breakeven EBITDA in FY22 we elevate our cost base assumptions (+13% in FY22), noting the ~\$8M R&D expense investment called out by SOM within their guidance. We moderate our cost base back from FY23e onwards not expecting this significant R&D investment to be maintained.

**Table 2. Summary of earnings revisions FY22-24e**

		FY22e	FY23e	FY24e
Revenue - previous	\$m	71.7	80.0	89.2
<b>Revenue - new</b>	<b>\$m</b>	<b>73.4</b>	<b>82.9</b>	<b>92.5</b>
- Change	%	2%	4%	4%
Cost base - previous	\$m	64.6	71.1	78.5
<b>Cost base - new</b>	<b>\$m</b>	<b>73.2</b>	<b>74.0</b>	<b>82.0</b>
- Change	%	13%	4%	4%
EBITDA - previous	\$m	7.1	8.9	10.7
<b>EBITDA - new</b>	<b>\$m</b>	<b>0.2</b>	<b>8.9</b>	<b>10.5</b>
- Change	%	-97%	0%	-2%
<b>Revenue delta</b>		<b>1.7</b>	<b>2.9</b>	<b>3.3</b>
<b>Costs delta</b>		<b>8.6</b>	<b>2.9</b>	<b>3.5</b>
<b>EBITDA delta</b>		<b>(6.9)</b>	<b>0.0</b>	<b>(0.2)</b>

Source: Wilsons.



## SomnoMed (SOM)

### 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.

### Investment thesis

We maintain our MARKET WEIGHT rating on SomnoMed with a revised \$2.40 price target (+45%). SomnoMed's stock has outperformed over the last 12 months in anticipation of new technology innovations to deliver some long-awaited structural changes to the US COAT™ (Continuous Open Airway Therapy) marketplace. Utilisation in the US market is 7%-8% versus 15%-50% in Europe. SomnoMed has not disclosed the details of its innovation plan but our thinking is guided by contemplating the two major roadblocks to broader US adoption: a) facilitating multidisciplinary treatment; and b) giving sleep physicians confidence in COAT's efficacy (versus CPAP) and ensuring longitudinal quality of care. Broadly, we expect there is a novel technology/data aspect in the SomnoMed R&D pipeline. Systematic reviews and meta-analyses already attest to COAT's effectiveness but studies that formally evaluate 'the effectiveness equation' are novel.

### Revenue drivers

- Growth rates.
- Regulatory and/or reimbursement approvals of new products, new territories.

### Margin drivers

- Making a high (c.70%) gross margin on its oral appliances
- We expect SG&A expense to increase modestly as the company develops and grows its market
- R&D expenditure
- Increased adoption of digitally manufactured devices and sales mix skew

### Key issues/catalysts

Upside risks:

- Quarterly cash flow indicates SomnoMed's sales growth progress
- Product launches
- Progress developing links to medical diagnosis channels

### Risk to view

Downside risks:

- Relatively limited capital for business development investment
- Emerging competition
- If successful could face scale-up and logistics challenges when demand increases
- Reimbursement in the USA is improving, but still needs to develop and broaden

### Balance sheet

- Net cash of \$18.9M at the end of FY21.

### Board

- Guy Russo (Non-Executive Chairman)
- Neil Verdal-Austin (Managing Director)
- Hamish Corlett (Non-Executive Director)
- Amrita Blickstead (Non-Executive Director)
- Michael Gordon (Non-Executive Director)
- Hilton Bret (Non-Executive Director)
- Karen Borg (Non-Executive Director)

### Management

- Neil Verdal-Austin (CEO)
- Hervé Fiévet (CFO)

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