

On an entirely new footing with earnings

We maintain our OVERWEIGHT rating but upgrade PT by 70% to \$0.80/share. The momentum from December's earnings upgrade has continued, in both business and sentiment terms. With last year's Intervention/restructuring event now delivering a solid EBITDA growth outlook, the market has moved swiftly, unwinding the 'uncertainty discount' and pricing SOM on 15-16x EV/EBITDA. We see that as a fair multiple for 'growth medtech'. We also see it being sustained, given the buoyant conditions in US and Global sleep markets.

Key Points

2Q25 trading update and guidance upgrade. **USA:** sales increased 37% (constant currency, cc) to \$11.8M (17% beat v WILSe). The restoration and extension of manufacturing capacity 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 also 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 being aggressively promoted in the space) and market share losses from Prosomnus. **Europe:** sales increased 10%(cc) to \$14.9M. Restructuring in that business has been achieved without apparent disruption. Its segment margin should be a feature of 1H25 results next month. **APAC:** sales increased 13%(cc) to \$1.8M driven primarily by a reinvigoration of customer outreach following last year's management intervention. 1H25 group revenue increased 19%(cc) to \$53.7M (4% ahead of WILSe: \$51.5M). Somnomed maintained revenue guidance at ~\$105M but upgraded EBITDA outlook to \$7-9M (previously >\$7M).

Forecasts and model changes. Movements are relatively minor given we upgraded in December. Revenue estimates lift 3% across forecast period: booking the 2Q25 revenue beat and favourable FX adjustments thereafter. EBITDA upgrades are modest (\$1-2M/year). SomnoMed will close 1H25 with \$17.5M net cash and is fully funded for capex programs and RestAssure launches, when appropriate.

Valuation. The rapid restoration of SOM's market cap back above \$100M invites a return to broad, institutional participation in the stock. Situationally, two factors encourage this and argue for a larger lift in PT than might be expected, based on formal DCF or 'fundamentals' alone. Operational confidence has accelerated with successive quarters, unwinding the steep discount we applied to valuation at the time of the management intervention last year. More importantly, those restructuring efforts are now generating sustainable EBITDA growth for the first time in Somnomed's history, encouraging a multiples-based approach to setting price targets. The prevailing 15-16x EV/EBITDA is not a 'stretch' for a growth medtech (versus international comps); and looks sustainable, given the positive sector backdrop for sleep apnoea diagnosis and referral rates. Equally, oral appliance therapy may be gaining more visibility. Applying 15.5x EV/EBITDA to revised FY26e earnings suggests \$0.80/share is achievable on a 12-month view. For full transparency, DCF valuation is \$0.61/share (core SomnoDent device business only and zero attribution for the RestAssure 'connected care' platform in development). OVERWEIGHT.

Recommendation	OVERWEIGHT
12-mth target price (AUD)	\$0.80
Share price @ 24-Jan-25 (AUD)	\$0.66
Forecast 12-mth capital return	21.2%
Forecast 12-mth dividend yield	0.0%
12-mth total shareholder return	21.2%

Market cap (\$m)	142.6
Enterprise value (\$m)	127.5
Shares on issue (m)	216.1
Sold short (%)	0.0
ASX All Ords weight (%)	0.0
Median turnover/day (\$m)	0.0

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12-mth price performance (\$)



	1-mth	6-mth	12-mth
Abs return (%)	43.5	88.6	46.7
Rel return (%)	40.3	78.7	31.2

Financial summary (Y/E Jun, AUD)	FY23A	FY24A	FY25E	FY26E	FY27E
Sales (\$m)	83.6	91.7	108.2	117.8	128.6
EBITDA norm (\$m)	2.1	0.6	8.1	9.7	12.0
Consensus EBITDA (\$m)			7.5	9.8	12.5
NPAT norm (\$m)	(6.5)	(9.3)	0.6	1.5	2.4
EV/Sales (x)	1.8	1.4	1.2	1.0	1.0
EV/EBITDA (x)	70.2	n/m	15.5	12.7	10.5
P/E (x)	n/m	n/m	n/m	93.1	60.0

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

Wilsons Advisory Equity Research

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Key changes		3-Dec	After	Var %
Sales	FY25E	105.3	108.2	3%
	FY26E	115.1	117.8	2%
	FY27E	125.6	128.6	2%
EBITDA	FY25E	6.5	8.1	25%
norm	FY26E	9.0	9.7	8%
(\$m)	FY27E	11.0	12.0	9%
Price target		0.45	0.80	76%
Rating		O/W	O/W	

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	108.2	117.8	128.6
EBITDA norm	2.1	0.6	8.1	9.7	12.0
EBIT norm	(3.0)	(5.2)	1.8	2.7	4.1
PBT norm	(5.6)	(8.3)	1.7	2.6	4.0
NPAT norm	(6.5)	(9.3)	0.6	1.5	2.4
NPAT reported	(7.9)	(12.2)	0.6	1.5	2.4
EPS norm (cents)	(7.7)	(4.3)	0.3	0.7	1.1
DPS (cents)	0.0	0.0	0.0	0.0	0.0

Growth (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Sales	15.2	9.6	18.1	8.8	9.2
EBITDA norm	61.5	(71.4)	n/m	20.0	23.5
NPAT norm	64.0	44.0	(106.7)	145.0	55.2
EPS norm (cents)	61.7	(44.0)	(106.7)	145.0	55.2
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	7.5	8.2	9.3
EBIT margin	(3.6)	(5.6)	1.7	2.3	3.2
PBT margin	(6.7)	(9.1)	1.6	2.2	3.1
NPAT margin	(7.7)	(10.2)	0.6	1.3	1.8
ROA	n/m	n/m	2.4	3.4	4.6
ROIC	n/m	n/m	6.1	8.6	9.6
ROE	n/m	n/m	1.3	3.0	4.0

Interims (\$m)	2H23A	1H24A	2H24A	1H25E	2H25E
Sales	43.7	45.1	46.5	53.7	54.5
EBITDA norm	1.3	(1.1)	1.7	4.1	4.0
EBIT norm	(1.5)	(4.0)	(1.2)	1.1	0.8
PBT norm	(3.6)	(5.5)	(2.9)	1.0	0.7
NPAT norm	(3.6)	(6.3)	(3.0)	0.2	0.4
NPAT reported	(4.2)	(6.3)	(5.9)	0.2	0.4
EPS norm (cents)	(4.3)	(6.8)	(1.4)	0.1	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	43.8	46.1	51.8
EMEA revenue (\$m)	47.3	52.5	57.3	63.8	68.7
APAC revenue (\$m)	6.1	6.3	7.2	7.9	8.1

Source: Company data, Wilsons Advisory estimate, Refinitiv, IRESS.
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Investment Thesis

We maintain our OVERWEIGHT rating but upgrade PT by 70% to \$0.80/share. The momentum from December's earnings upgrade has continued, in both business and stock sentiment terms. With last year's Intervention/restructuring event now delivering solid EBITDA, the market has moved swiftly, unwinding the 'uncertainty discount' and pricing SOM on 15-16x EV/EBITDA. We see that as a fair multiple for smallcap growth medtech. We also see it being sustained.

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	18.6	20.6	17.6
Current receivables	11.1	12.4	13.5	14.2	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	74.7	78.9	87.7
Current payables	12.8	13.3	16.0	17.0	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	27.5	28.5	28.5
Minorities	0.0	0.0	0.0	0.0	0.0
Shareholders equity	22.4	45.0	47.2	50.4	59.2

Cash flow (\$m)	FY23A	FY24A	FY25E	FY26E	FY27E
Operating cash flow	(3.9)	(6.3)	8.4	9.1	10.7
Maintenance capex	(3.2)	(4.0)	(6.0)	(7.0)	(7.9)
Free cash flow	(7.1)	(10.3)	2.4	2.0	2.8
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)	2.4	2.0	2.8
Funded by equity	0.0	38.1	0.0	0.0	0.0
Funded by cash/debt	3.5	(42.3)	(2.4)	(2.0)	(2.8)

Liquidity	FY23A	FY24A	FY25E	FY26E	FY27E
Cash conversion (%)	28.6	(339.7)	105.2	94.5	90.5
Net debt (\$m)	4.7	(15.2)	(17.6)	(19.6)	(16.5)
Net debt / EBITDA (x)	2.2	(25.3)	(2.2)	(2.0)	(1.4)
ND / ND + Equity (%)	17.4	(50.8)	(59.2)	(63.4)	(38.8)
EBIT / Interest expense (x)	(1.1)	(1.6)	16.1	23.5	35.9

Valuation	FY23A	FY24A	FY25E	FY26E	FY27E
EV / Sales (x)	1.8	1.4	1.2	1.0	1.0
EV / EBITDA (x)	70.2	n/m	15.5	12.7	10.5
EV / EBIT (x)	n/m	n/m	68.7	46.1	30.9
P / E (x)	n/m	n/m	n/m	93.1	60.0
P / BV (x)	2.5	3.2	3.0	2.8	2.4
FCF yield (%)	(12.7)	(7.2)	1.7	1.4	2.0
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 maintained at approximately \$105M. EBITDA guidance updated to a range of \$7-9M (previously specified as >\$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	105.3	108.2	2.8%	115.1	117.8	2.3%	125.6	128.6	2.4%
EBITDA norm	\$m	6.5	8.1	24.5%	9.0	9.7	7.9%	11.0	12.0	9.0%
NPAT norm	\$m	(0.9)	0.6	169.5%	1.1	1.5	39.3%	1.8	2.4	32.1%
EPS norm	cps	(0.4)	0.3	172.3%	0.5	0.7	41.8%	0.8	1.1	37.5%

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
SomnoMed core revenue	\$m	72.6	83.6	45.1	46.5	91.7	53.7	54.5	108.2	117.8	128.6
USA	\$m	24.7	30.2	16.6	16.2	32.9	21.9	21.9	43.8	47.1	51.8
EMEA	\$m	42.5	47.3	25.2	27.2	52.5	28.0	29.3	57.3	63.0	68.7
AsiaPac	\$m	5.4	6.1	3.2	3.1	6.3	3.8	3.4	7.2	7.7	8.1
Gross profit	\$m	44.3	51.9	28.1	27.1	55.1	33.5	34.5	68.0	74.4	81.3
- Gross margin	\$m	61.0%	62.1%	62.2%	58.2%	60.2%	62.4%	63.2%	62.8%	63.2%	63.2%
Segment profits	\$m	12.6	14.0	6.2	5.0	11.2	11.9	12.3	24.2	27.8	31.1
USA	\$m	3.3	3.8	1.8	2.3	4.1	4.9	4.8	9.6	10.6	11.9
EMEA	\$m	8.2	9.3	3.8	3.7	7.5	6.6	7.3	13.9	16.3	18.3
AsiaPac	\$m	1.2	0.9	0.6	(1.0)	(0.4)	0.4	0.3	0.7	0.9	0.9
Corporate, R&D, other	\$m	(11.3)	(11.9)	(7.3)	(3.3)	(10.6)	(7.8)	(8.3)	(16.1)	(18.1)	(19.1)
EBITDA (\$m)	\$m	1.3	2.1	(1.1)	1.7	0.6	4.1	4.0	8.1	9.7	12.0
- EBITDA margin	\$m	1.8%	2.5%	-2.4%	3.7%	0.7%	7.6%	7.3%	7.5%	8.2%	9.3%
USA	\$m	3.3	4.1	1.8	2.3	4.1	4.9	4.8	9.6	10.6	11.9
EMEA	\$m	8.2	10.0	3.8	3.7	7.5	6.6	7.3	13.9	16.3	19.4
AsiaPac	\$m	1.2	0.6	0.6	(1.0)	(0.4)	0.4	0.3	0.7	0.9	1.3
Unallocated costs	\$m	(11.3)	(12.7)	(7.3)	(3.3)	(10.6)	(7.8)	(8.3)	(16.1)	(18.1)	(20.6)
NPAT (norm)	\$m	(3.9)	(6.5)	(6.3)	(3.0)	(9.3)	0.2	0.4	0.6	1.5	2.4
EPS	cps	(4.8)	(7.7)	(6.8)	(1.4)	(4.3)	0.1	0.2	0.3	0.7	1.1
Net debt	\$m	(8.8)	4.7	(0.9)	(15.2)	(15.2)	(17.4)	(17.6)	(17.6)	(19.6)	(22.4)
Operating cash flow	\$m	1.9	(3.9)	(4.6)	(1.8)	(6.3)	5.3	3.1	8.4	9.1	10.7
Growth											
- Group revenue growth		16%	15%	13%	7%	10%	19%	17%	18%	9%	9%
- USA revenue growth		34%	22%	9%	9%	9%	32%	35%	33%	8%	10%
- EMEA revenue growth		9%	11%	17%	6%	11%	11%	8%	9%	10%	9%
- AsiaPac revenue growth		3%	13%	5%	2%	3%	16%	9%	13%	7%	6%
Profitability											
- USA segment margin		13.5%	13.6%	10.8%	14.2%	12.5%	22.2%	21.7%	21.9%	22.5%	23.0%
- EMEA segment margin		19.2%	21.2%	15.0%	13.6%	14.3%	23.6%	24.9%	24.3%	25.9%	28.3%
- AsiaPac segment margin		21.4%	10.6%	19.8%	-32.4%	-5.7%	11.2%	7.5%	9.4%	11.6%	15.8%

Source: SOM, Wilsons Advisory.

Valuation

Pricing Somnomed earnings using a multiple. In this note we have elected to change our approach to setting PT, having used DCF for most of the time we've covered Somnomed. DCF had been somewhat of a necessity, whilst the business tracked along with low/no current or near-term earnings, promising a more lucrative future. Recent restructuring efforts have dragged profitability forward largely via cost-out. As we wrote in our Dec-24 upgrade [note](#), the revenue outlook is now sitting above what we forecast before the Intervention took place, but not dramatically so. A modest price increase from 2H25e will assist gross margin in a small way, but the successive lifts in EBITDA guidance are driven by opex efficiencies across all three reporting territories. Thinking about the sustainability of earnings growth from here, revenue generation looks straightforward and may even be bolstered from FY26/7 by RestAssure launch(es). Incidentally, the deferral of that launch relaxes pressure on (supporting) opex for a few years; likely giving management some extra degrees of freedom in ensuring service levels are maintained with their reconfigured workforce. The market has moved quickly to price FY25e on 15.7x our revised FY25e EBITDA of \$8.1M. With operating stability returned and capacity reliably increased, sustaining the multiple at that level (which is unremarkable compared to international medtech comps provided in [Figure 5](#)) looks feasible. We set our \$0.80 PT based on 15.5x FY26e EBITDA (highlighted in [Figure 4](#)). Extrapolating the same assumption to FY27e plots a path towards \$1.00/share on a 2-year view.

Figure 4: Valuation trajectories for SOM at 15.5x EV/EBITDA

		FY25E	FY26E	FY27E
EBITDA	\$m	8.1	9.7	12.0
EV/EBITDA	x	15.7x	15.5x	15.5x
EV	\$m	127.4	150.6	185.9
Net debt (cash)	\$m	(15.2)	(22.3)	(22.4)
Equity value	\$m	142.6	172.9	208.3
Equity value/share	\$/share	0.66	0.80	0.96

Source: Wilsons Advisory.

Figure 4: International medtech valuation benchmarks

Company Name	Ticker	EV/EBITDA			PER (norm.)			EBITDA margin		
		FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Nanosonics Ltd	NANAX	39.1x	27.9x	19.6x	107.1x	76.2x	60.5x	10.6%	13.3%	17.3%
Polynovo Ltd	PNVAX	130.3x	55.6x	33.9x	261.0x	174.0x	68.0x	9.5%	17.7%	23.6%
Aroa Biosurgery Ltd	ARXAX	56.9x	13.6x	8.1x	>100x	>100x	61.6x	3.8%	12.6%	17.2%
Resmed Inc	RMD	15.3x	14.2x	13.1x	32.4x	26.6x	24.0x	36.6%	36.8%	37.2%
Fisher & Paykel Healthcare Corporation Ltd	FPHAX	24.4x	20.8x	17.8x	80.1x	62.2x	50.4x	30.8%	32.2%	33.5%
Cochlear Ltd	COHAX	33.3x	30.0x	26.4x	51.7x	48.6x	42.7x	26.1%	26.6%	27.6%
Koninklijke Philips NV	PHGAS	8.5x	7.8x	7.2x	18.6x	16.9x	14.6x	16.1%	16.8%	17.4%
Edwards Lifesciences Corp	EW	25.7x	25.5x	22.4x	27.4x	28.2x	25.1x	30.6%	30.5%	31.3%
Abbott Laboratories	ABT	16.5x	15.0x	13.8x	26.4x	23.9x	21.8x	26.5%	27.1%	27.5%
Stryker Corp	SYK	19.9x	17.8x	16.3x	32.6x	29.1x	26.3x	27.5%	28.4%	28.8%
Medtronic PLC	MDT	12.7x	11.9x	11.2x	17.2x	16.4x	15.3x	28.9%	29.4%	29.9%
Boston Scientific Corp	BSX	19.3x	16.7x	14.7x	41.2x	36.1x	31.7x	29.2%	29.7%	30.6%
Integra Lifesciences Holdings Corp	IARTO	13.8x	13.1x	12.2x	10.4x	10.1x	9.2x	20.6%	20.5%	21.1%
Becton Dickinson and Co	BDX	13.7x	12.9x	12.1x	18.3x	16.7x	15.3x	29.0%	29.4%	29.9%
Baxter International Inc	BAX	13.7x	11.3x	10.8x	17.7x	13.0x	11.8x	20.9%	23.7%	23.9%
Zimmer Biomet Holdings Inc	ZBH	11.1x	10.7x	10.3x	13.9x	13.0x	12.1x	36.0%	35.9%	35.7%
Johnson & Johnson	JNJ	11.0x	10.5x	9.9x	14.7x	13.9x	13.3x	36.6%	37.0%	37.9%
Group Median		16.5x	14.2x	13.1x	26.9x	25.3x	24.0x	27.5%	28.4%	28.8%

Source: Refinitiv, Wilsons Advisory.

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