

## SomnoMed (SOM)

# Retaining guidance following a patchy 3Q22

### Announcement highlights

SomnoMed (SOM) announced their March Q trading update today, with total 3Q22 revenues of \$17.3M (+10% vs pcp) which represented +21% growth vs pcp when excluding 3Q21 COVID benefits in Netherlands (a core market), noting 3Q21 was a very weak pandemic affected period for SOM. Geographically sales were divided by; Europe \$10.2M (+13% vs pcp), US sales of \$5.76M (+42% vs pcp) and APAC sales of \$1.4M (+8% vs pcp). Sales were a miss to our 3Q22 estimates across all geographies (-9% vs WILSe at group level).

Cash balance of \$14.8M as of 31 March (equating to \$8M net cash) will continue to support SOM's R&D development plans related to their new product launch, Rest Assure®, with ~\$1.7M R&D investment remaining in FY22 guided budget (of \$8.0M total).

FY22 guidance was reaffirmed: Revenue growth  $\geq 15\%$  with breakeven EBITDA.

### Wilson's' view

#### Initial analysis

Table 1. SOM's 3Q22 revenue vs pcp and our forecasts

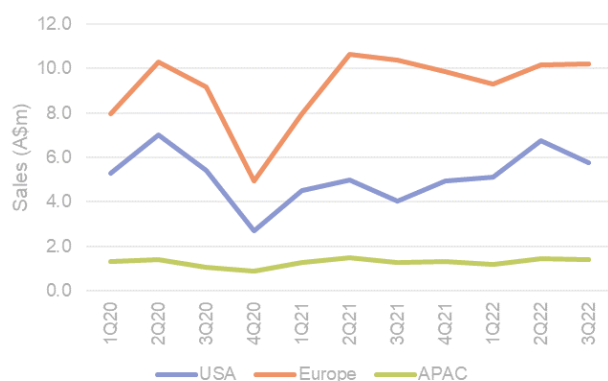
(AUD\$m)	3Q21	3Q22	%chg	Forecast	%chg	Var (abs\$)	%var
USA	4.1	5.8	42%	6.6	63%	0.8	-13%
Europe	9.0	10.2	13%	11.0	22%	0.8	-7%
APAC	1.3	1.4	8%	1.5	12%	0.1	-4%
<b>Core revenue</b>	<b>14.4</b>	<b>17.3</b>	<b>21%</b>	<b>19.1</b>	<b>33%</b>	<b>1.7</b>	<b>-9%</b>

Note: that 3Q21 core revenue shown here excludes COVID HICs funding in Europe of \$1.36M.

Source: SOM, Wilsons

**Sales momentum in US moderated off back of very strong 2Q22.** Geographically all regions were in growth vs a weak COVID-affected 3Q21 pcp. On a QoQ basis we saw declines in both US and APAC with Europe flat. When comparing to a (just) pre-COVID affected period (3Q20) we can see low double-digit growth (11%) across APAC/EU with US at +7% vs 3Q20 suggesting a return to modest growth following periods of COVID-volatility for SomnoMed's business. Investments in SOM's US salesforce appear to be having an impact, with this being a supporting factor for strong growth in this market in 4Q22.

Figure 1. SOM quarterly geographic sales (FY20-3Q22).



Source: SOM, Wilsons.

#### Wilson's Equity Research

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**Guidance reaffirmation implies strong 4Q.** SomnoMed reaffirmed their FY22 revenue guidance of at or above 15% growth – implying ~\$72M total FY22 revenue. Our current forecasts are in line with this guidance, meaning that there is a strong 4Q22 sales performance expected based on 3Q22 numbers. At a group level this implies 4Q22 growth of 29% vs pcp or 20% QoQ, with double digit growth across all regions. 4Q22 is a relatively strong seasonal period for SOM. Our current divisional forecasts for APAC and EU seem achievable in 4Q22 however our North American forecast of \$7.4M requires a very strong rebound. We question whether the impending Rest Assure® launch in that region in 2023 may be pushing out some demand as customers wait for the new and improved version.

**R&D spend/ Rest Assure® progress.** We note \$6.3M has been expensed YTD of a guided \$8.0M FY22 investment in R&D associated with Rest Assure® development. SomnoMed presented Rest Assure® at the World Sleep conference in Rome to a positive reception, and have since filed an international patent application. FY22 hopes to see design finalisation with regulatory submissions for approval in FY23. We anticipate the potential for a limited launch/early sales in 2H23, notwithstanding significant hurdles.

### **Earnings implications**

Our implied 4Q22e revenue forecast (WILSe \$20.9M) is supported by SOM's reaffirmation of their FY22 revenue guidance today, noting that our divisional splits between US and EU perhaps require some moderation with EU being a stronger 4Q contributor than anticipated, in the absence of of  $\geq 50\%$  North American sales growth (4Q22e v pcp). We forecast FY22e EBITDA of \$0.3M.

### **Investment view**

Investment view and PT under review. Our last published rating was OVERWEIGHT with a \$2.40 price target.



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