



SomnoMed (SOM)

Upgrading forecasts and valuation

Our View

SOM upgraded guidance at its recent AGM, on the back of a strong start to the year. It upgraded FY25 revenue guidance by 5% to ~\$105m and EBITDA guidance by 40% to >\$7m.

Q125 revenue rose 18.2% (20.3% in constant currency) to \$25.3m, driven by double digit new order growth and partial unwinding of the order backlog. Management commented at the AGM that trading in Q2 has started out strongly.

SOM has increased manufacturing capacity by 30% in its Manila facility by improving processes, installing extra milling machines and adding manufacturing headcount. Its near term goal is to increase capacity by 50% vs FY24. As a result, the backlog has more than halved and turnaround times have fallen by ~30%.

In an encouraging sign, new orders have increased as turnaround times have improved and as a result the backlog has not been fully eliminated. We expect revenue growth to slow in H225 as the backlog should be largely unwound in H1.

We have increased our revenue and earnings forecasts in response to the strong underlying demand and upgraded guidance. Our DCF-based valuation increases to \$0.73/sh (vs \$0.67 on 18-Sep) or \$0.72/sh fully diluted for options on issue.

We note that our forecasts and valuation do not assume any benefit from RestAssure or the potential for US Medicare reimbursement for its lead product, the SomnoDent Avant. These two potential catalysts are discussed below.

Key Points

RestAssure is now an FY27 story

SOM reported on 7 October that the US FDA had cleared the compliance monitoring capability of its RestAssure device but had not approved the efficacy monitoring feature. At the AGM SOM disclosed that it will conduct a US clinical trial to collect additional data before it submits a new 510(k) application late CY25. The trial is likely to enrol around 150 patients and is expected to cost a little over \$1m. With FDA clearance of efficacy monitoring now expected in H1 CY26, we do not expect commercial sales of RestAssure to commence until FY27 (if approved).

RestAssure will provide nightly usage and treatment effectiveness data, similar to the information that is available for patients who use CPAP machines. We expect the patient monitoring data will give sleep physicians more confidence to prescribe mandibular advancement splint (MAS) therapy as an alternative to CPAP, driving market share gains for SOM and growing the total MAS market.

PDAC still dragging the chain on Avant reimbursement

We understand that the Pricing, Data Analysis and Coding (PDAC) Contractor has rejected SOM's latest application for US Medicare reimbursement for its Avant device, saying that the plastic strap connecting the upper and lower plates does not fulfil its requirement that devices reimbursed under the E0486 code have a fixed mechanical hinge. SOM intends to appeal this decision, pointing out that the Glidewell Silent Nite device which uses plastic straps to connect the two plates is reimbursed under the E0486 code. While we believe SOM has a strong argument, we note that PDAC could resolve this inconsistency by either reimbursing SOM's Avant device or by withdrawing reimbursement for the Silent Nite device.

Revised forecasts

\$m	Total revenue				EBITDA			
	FY24a	FY25f	FY26f	FY27f	FY24a	FY25f	FY26f	FY27f
New forecasts	91.7	105.7	113.3	124.6	-2.5	8.5	10.6	14.0
Prior forecasts		100.9	111.0	120.9		7.3	11.1	13.7
Change		5%	2%	3%		17%	-4%	2%

13 December 2024

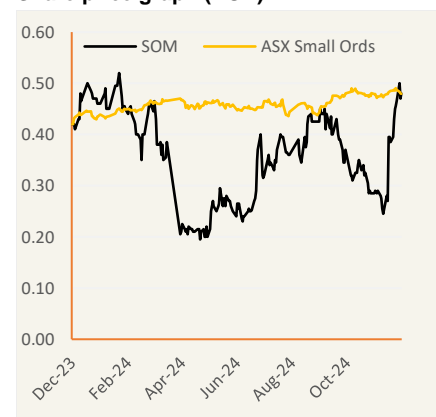
Speculative Investment

Recommendation: Outperform

Summary (AUD)

Market Capitalisation	\$104M
Share price	\$0.50
52 week low	\$0.19
52 week high	\$0.51
Cash as at 30 September 2024	\$16.4m

Share price graph (AUD)



Key Financials (AUD)

	FY24A	FY25E	FY26E
Revenue (\$m)	91.7	105.7	113.3
Regional SG&A (\$m)	(44.1)	(40.2)	(42.8)
Corporate SG&A (\$m)	(13.5)	(15.7)	(16.8)
EBITDA (\$m)	(2.5)	8.5	10.6
Reported NPAT (\$m)	(12.2)	1.1	2.6
NPAT Adj. (\$m)	(9.2)	1.1	2.6
EPS Adj. (c)	(7.7)	0.5	1.2
PE ratio (x)	n/a	96.2	42.0
DPS (c)	0.0	0.0	0.0
EV/Sales	1.0	0.9	0.8
EV/EBITDA (x)	n/a	10.9	8.8
EV/EBIT (x)	n/a	42.7	25.2

Somnomed - Summary of Forecasts **SOM \$0.50**

PROFIT & LOSS SUMMARY (A\$m)				
Year end June	FY24A	FY25E	FY26E	FY27E
Sales	91.7	105.7	113.3	124.6
Other	0.0	0.0	0.0	0.0
Total Revenue	91.7	105.7	113.3	124.6
Growth (pcp)	9.6%	15.3%	7.2%	10.0%
CoGS	(36.5)	(41.2)	(43.0)	(47.3)
Gross Profit Margin	60%	61%	62%	62%
Regional SG&A expenses	(44.1)	(40.2)	(42.8)	(45.8)
Corporate & other expense	(13.5)	(15.7)	(16.8)	(17.5)
EBITDA	(2.5)	8.5	10.6	14.0
Dep'n/Amort'n	(3.1)	(3.7)	(4.0)	(5.9)
AASB16 lease payments	(2.5)	(2.7)	(2.9)	(3.1)
EBIT	(8.1)	2.2	3.7	5.1
Net Interest + Finance cost	(3.1)	0.0	0.0	0.1
Pre- Tax Profit	(11.3)	2.2	3.7	5.2
Tax Expense	(1.0)	(1.1)	(1.1)	(1.2)
NPAT Adj.	(9.2)	1.1	2.6	3.9
Growth (pcp)	n/a	n/a	129%	52%
Adjustments	3.0	0.0	0.0	0.0
NPAT Reported	(12.2)	1.1	2.6	3.9
Margins on revenue				
EBITDA margin	-2.7%	8.1%	9.4%	11.2%
EBIT margin	-8.9%	2.1%	3.3%	4.1%

PER SHARE DATA				
Year end June	FY24A	FY25E	FY26E	FY27E
EPS (c) - Reported	(10.1)	0.5	1.2	1.8
Growth (pcp)	n/a	n/a	n/a	52%
EPS (c) - Adjusted	(7.7)	0.5	1.2	1.8
Growth (pcp)	n/a	n/a	n/a	52%
Dividend (c)	0.0	0.0	0.0	0.0
Franking	0.0	0.0	0.0	0.0
Gross CF per share (c)	(5.2)	2.8	3.0	4.4
NTA per share (c)	11.4	11.5	12.3	13.6

KEY RATIOS				
Year end June	FY24A	FY25E	FY26E	FY27E
Net Debt : Equity (%)	-21%	-25%	-31%	-40%
Net Debt: EBITDA (x)	3.8	(1.4)	(1.4)	(1.5)
Current ratio (x)	1.8	1.7	1.8	2.0
ROE (%)	-27%	2%	5%	8%
ROIC (%)	n/a	4%	8%	11%
Dividend Payout Ratio (%)	n/a	n/a	n/a	n/a

VALUATION MULTIPLES				
Year end June	FY24A	FY25E	FY26E	FY27E
PE Ratio (x)	n/a	96.2	42.0	27.6
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%
EV/Sales (x)	1.0	0.9	0.8	0.7
EV/EBITDA (x)	n/a	10.9	8.8	6.6
EV/EBIT (x)	n/a	42.7	25.2	18.3

BALANCE SHEET SUMMARY				
Year end June	FY24A	FY25E	FY26E	FY27E
Cash	16.2	18.3	21.7	27.9
Receivables	12.4	13.7	14.7	16.2
Inventories	6.3	6.3	6.8	7.5
Other	0.3	0.3	0.3	0.3
Total Current Assets	35.1	38.7	43.5	51.9
Inventories	0.0	0.0	0.0	0.0
Property Plant & Equip	5.8	4.9	2.9	(0.9)
Intangibles	20.3	21.4	22.4	23.5
Other	8.6	8.6	8.6	8.6
Total Non- Current Assets	34.7	34.9	33.9	31.2
TOTAL ASSETS	69.8	73.6	77.4	83.1
Accounts Payable	13.3	15.9	17.0	18.7
Borrowings	0.3	0.3	0.3	0.3
Lease Liabilities	2.3	2.3	2.3	2.3
Provisions	3.8	3.8	3.8	3.8
Other	0.2	0.2	0.2	0.2
Total Current Liab	19.9	22.5	23.6	25.3
Borrowings	0.7	0.7	0.7	0.7
Lease Liabilities	3.4	3.4	3.4	3.4
Provisions	0.7	0.7	0.7	0.7
Other	0.0	0.0	0.0	0.0
Total Non- Current Liab	4.8	4.8	4.8	4.8
TOTAL LIABILITIES	24.8	27.3	28.5	30.2
TOTAL EQUITY	45.0	46.2	48.9	52.9

CASH FLOW SUMMARY				
Year end June	FY24A	FY25E	FY26E	FY27E
EBIT (excl Abs/Extr)	(8.1)	2.2	3.7	5.1
Add: Dep'n & Amort'n	3.1	3.7	4.0	5.9
Change in Payables	1.1	2.6	1.1	1.7
Other non-cash items	1.8	(2.0)	(2.2)	(2.4)
Less: Tax paid	1.1	1.1	1.1	1.2
Net Interest	(1.9)	0.0	0.0	0.1
Change in Rec.	(1.2)	(1.4)	(1.0)	(1.5)
Change in Inv.	(2.2)	(0.1)	(0.5)	(0.7)
Gross Cashflows	(6.3)	6.0	6.4	9.4
Capex	(5.3)	(3.9)	(3.0)	(3.2)
Free Cashflows	(11.7)	2.1	3.4	6.2
Share Issue Proceeds	36.0	0.0	0.0	0.0
Other, incl. loans	(20.1)	0.0	0.0	0.0
Dividends Paid	0.0	0.0	0.0	0.0
Net Cashflows	4.2	2.1	3.4	6.2
FX Effect on Cash	0.0	0.0	0.0	0.0

Disclaimer

IMPORTANT INFORMATION

This report is a private communication to clients and those considering becoming a client and is not intended for public circulation or publication, or for the use of any third party without the approval of Taylor Collison Limited ABN 53 008 172 450 ("Taylor Collison"). It is distributed on the basis that no part of it will be reproduced, altered in any way, transmitted to, copied to or distributed to any other person without the prior express permission of Taylor Collison. Taylor Collison holds Australian Financial Services Licensee (No. 247083) and is a Trading Participant of more than one Relevant Exchange, including the Australian Securities Exchange (ASX), National Stock Exchange of Australia (NSX) and Cboe Australia Pty Ltd (Cboe). TC Corporate Pty Ltd ABN 31 075 963 352 ("TC Corporate") is a wholly owned subsidiary and Authorised Representative of Taylor Collison Limited.

The following **Warning**, **Disclaimer** and **Disclosure** relate to all material presented in this report and should be read before relying on any of its content to make an investment decision.

Warning

This report presents information, being general advice (i.e., a rating, opinions and/or forecasts) and factual information, in relation to a particular financial product(s). The general advice, whether it be explicit or implied, is based solely on the Analyst's assessment of the merits and attributes of the product(s) concerned. Don't interpret it as indicating that taking a course of action in line with the general advice is appropriate for you personally. It is not personal (i.e., personalised) advice. The question of the product's suitability or appropriateness for your or anyone's particular investment objectives, financial circumstances or needs (i.e., your relevant circumstances) has not been considered. Personal advice addresses whether taking a course of action in relation to a financial product(s) is appropriate for you personally, based on what the adviser knows about the product(s) and your relevant circumstances. Therefore, before acting or otherwise relying on its general advice or other information, consider the appropriateness of doing so, in the light of your objectives and circumstances, or seek personal advice from your adviser at Taylor Collison. If you act without first consulting your adviser, you do so at your own risk.

If the general advice promotes acquisition of a product for which there is a current Product Disclosure Statement (PDS) or a Prospectus, you should obtain and consider a copy before making a decision about whether to invest or to remain invested. You should be able to obtain a copy from or through us.

Although analysis of the level, nature and sustainability of past performance is a necessary element of the basis for the insights, statements and forecasts presented by the Analyst, be aware that the past performance itself is not a reliable indicator of future performance of a product or its issuer. Taylor Collison does not guarantee the capital you invest through us against loss, or the performance of (including the payment of income from) your investments, even when they are guided or managed by us.

Disclaimer

This report includes, and was prepared using, information from sources Taylor Collison considers reliable, but we do not guarantee its accuracy and completeness. All opinions, conclusions, forecasts and ratings are reasonably held at the time this report was published but are subject to change without notice. If they do change after publication, Taylor Collison assumes no obligation to update and republish this report. It may include forecasts or statements about the future, including guidance on future earnings, financial position and performance. The words "expect", "should", "could", "may", "predict", "plan" and other similar expressions are intended to identify such "forward-looking statements". The forward-looking statements, opinions and estimates presented in this report are based on assumptions and contingencies which are subject to change without notice, as are statements about market and industry trends, which are based on interpretations of current market conditions.

Except for any liability which by law cannot be excluded, Taylor Collison, its directors, officers, employees, representatives (e.g. our advisers) and agents accept no liability (whether in negligence or otherwise) for any error, inaccuracy in, or omission from the information presented in this report or any loss or damage suffered by the recipient or any other person directly or indirectly as a result of any action taken or not taken on the basis of any of the information presented in this report.

Disclaimer continued

Disclosure – Analyst’s remuneration and other interests

Analyst remuneration is not linked to the rating, opinions or forecasts presented in any research, or to securing a mandate to provide corporate advisory or fund-raising services or to the successful completion of such a mandate (any other *‘conflicted scenario’*). Brokerage paid by institutional clients for dealings (which may be in response to our research) facilitated by our institutional sales team is shared between Taylor Collison (for overheads) and to remunerate the institutional and research teams. The arrangement serves to reimburse Taylor Collison for payment of base salaries, and beyond a threshold, a pool is made available to be allocated quarterly as a discretionary bonus to members of the teams, based on merit, payable annually.

The Analyst directly or indirectly holds or has an interest in approx. 220,000 shares in SOM.ASX, but Taylor Collison does not consider this to be sufficiently material to have compromised the rating, opinions or forecasts presented. The Analyst and/or their associate(s) may at any time, during its life, have a holding or interest in any products addressed in this report, or a derivative product, and these (if any) may change during the life of this report.

Disclosure – The remuneration and interests of Taylor Collison and others

Taylor Collison Principal accounts directly or indirectly hold or have an interest in approx. 3,760,000 shares in SOM.ASX, but Taylor Collison does not consider this to be sufficiently material to have compromised the Analyst’s rating, opinions or forecasts. Taylor Collison and/or an associate(s) may at any time, during its life, have a position(s) in any products or options addressed in this report and these holdings (if any) may change during the life of this report.

Collectively, other staff (our advisers, and their associates) directly or indirectly hold or have an interest in approx. 300,000 shares in SOM.ASX. This holding or interest may change during the life of this report.

Where this report is distributed to clients of advisers who aren’t members of either the research or institutional team, and the client transacts in response to the research, the brokerage paid by clients for dealings facilitated by the adviser is shared between Taylor Collison and the adviser.

Disclosure - General

Taylor Collison, its directors, officers, employees, representatives and/or agents may during the preparation and the life of this report, for legitimate reasons, have a role or be engaging in activities in relation to the product(s) referred to in this report which do or appear to conflict with the Analyst’s views and rating. During the life of this report, we may transact or facilitate transactions in the product(s) concerned for clients or provide oral or written advice to clients which is not consistent with the rating or opinions presented. Taylor Collison may solicit business from any issuer mentioned and may sell or buy the product(s) concerned *‘as principal’*. Taylor Collison receives fees (e.g., application fees), brokerage or commissions, and may receive other benefits, for acting in these various ways, which may be shared with those involved, including our advisers (other than members of our research or institutional teams), associated companies or introducers of business.

Analyst Certification: The Analyst certifies that the views expressed accurately reflect their personal, professional opinion about the product(s) addressed in this report.

Date Prepared: December 2024

Analyst: Dr Dennis Hulme

Release Authorised by: Campbell Taylor

TAYLOR COLLISON LIMITED
Sharebrokers and Investment Advisors
Established 1928

ADELAIDE
Level 16, 211 Victoria Square
Adelaide SA 5000
GPO Box 2046
Adelaide SA 5001
Telephone 08 8217 3900
Facsimile 08 8321 3506
broker@taylorcollison.com.au

SYDNEY
Level 10, 167 Macquarie Street
Sydney NSW 2000
GPO Box 4261
Sydney NSW 2001
Telephone 02 9377 1500
Facsimile 02 9232 1677
sydney1@taylorcollison.com.au

Participant of the Australian Securities Exchange (ASX) Group.

ABN 53008172450
AFSL 247083