

stock update
RECOMMENDATION:
ACCUMULATE
SomnoMed Ltd

Time to re-evaluate

Stock Code: SOM

Last Price: \$2.12

Market Cap (fd): \$133.9m

Risk Level: High

11 September 2019
EVENT

- With the release of the SomnoMed Ltd (SOM) FY19 result (21 August), we have taken the opportunity to undertake a detailed review of the business post RSS.

Peter Meichelboeck

KEY POINTS

61 2 9234 4000

- FY19 result (exc RSS) almost within guidance:** Despite rising 27.8% to \$4.9m, SOM's FY19 underlying EBITDA result (excluding RSS, abnormal items, and share based payments) was just short of guidance (\$5.0-5.5m). The big reported loss was largely caused by RSS (-\$16.4m NPAT) which closed during FY19.
- Mixed segmental performance, but corporate costs fell significantly:** North America revenue rose 10.7% to \$19.8m (up ~2% in USD terms), however margins fell from 14.2% in 1H19 to just 3.3% in 2H19 as SOM maintained its cost base ahead of an expected further recovery in sales post RSS. In Europe, revenue rose 12.9% to \$34.3m (~9% in EUR terms), however growth and margins declined in 2H19 due to capacity constraints within the hospital system in Holland, and a delayed tender process in Sweden.
- Balance sheet and core operating cash flow ok:** SOM finished with \$7.7m cash, while the core business (ex RSS) produced positive cash flow of \$2.6m.
- Strong, but reasonable, FY20 guidance:** The company has guided to FY20 revenue of \$67-69m (+14-17%), and Underlying EBITDA of \$6.3-6.7m (+26-34%). While this would be a significant improvement on the FY19 result, we believe the targets are achievable.
- Early signs of recovery in North America?:** We estimate constant currency revenue grew 14% pa (FY10-16), but dropped to 0% over FY17-19 due to RSS channel conflict. However, post RSS we believe the first signs of life may now be emerging, and that SOM has been able to regain some small initial sales from some of the customers it lost due to RSS. We appreciate that it is very early days in any potential US recovery, however we are encouraged with the appearance of some green shoots, and the presence of some clear air for the company post RSS to focus on driving the core business again.
- Issues in Europe appear to be short term:** While we do not expect Europe to return to the 20% constant currency growth it achieved in recent times, we do anticipate a recovery in FY20 as we do believe these recent setbacks can be overcome. While these problems could linger, our longer term forecasts could prove conservative should SOM gain traction with its new German insurer contract, or if COAT makes market share gains.

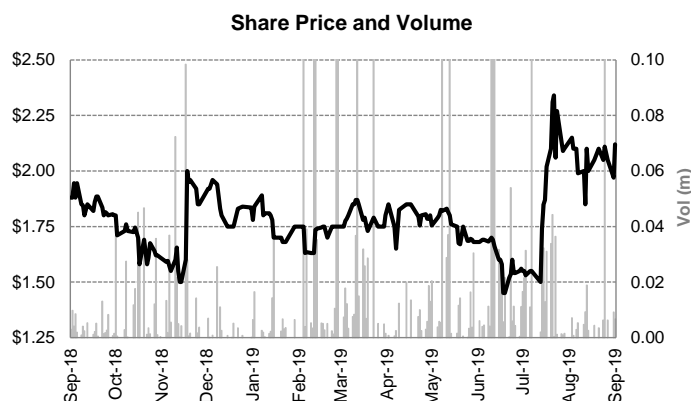
RECOMMENDATION: ACCUMULATE (previously Hold)

- With RSS no longer placing unsustainable pressure on SOM's cash resources, earnings and management time, and with what we think may be signs of a recovery in North America, we have upgraded to ACCUMULATE. However, we acknowledge that it is only early days in North America, that some S/T issues emerged in Europe in FY19 that still need to be sorted out, and that there is only modest valuation support at this stage.

June Year End	FY19	FY20E	FY21E	FY22E
Revenue (\$m)	58.9	66.1	72.7	79.8
SOM underlying EBITDA (\$m)*	4.9	6.3	8.0	9.8
EBITDA (\$m)	3.9	5.2	6.8	8.6
NPAT (\$m)	1.9	3.0	4.2	5.6
EPS (¢)	3.0	4.7	6.6	8.9
DPS (¢)	-	-	2.0	3.0
PE (x)	48.8	45.5	31.9	23.9
PE Rel Small Ords (%)		230%	194%	171%
EV / Revenue (x)	1.5	2.0	1.8	1.6
EV / EBITDA (x)	22.5	24.7	18.9	14.9
Yield (%)	0.0%	0.0%	0.9%	1.4%
# Shares (fully diluted, m)				63.2
Monthly Volume (m)				0.6
Market Cap (fully diluted, \$m)				133.9
less: Net Cash (FY20E, \$m)				-4.9
Enterprise Value (fully diluted, \$m)				129.0

* Underlying EBITDA (SOM defined) is pre share-based payments

Source: Company data and Select Equities Research



Source: Bloomberg

FY19 RESULT
RESULT SUMMARY

SomnoMed Ltd (SOM)		FY18	FY19	Change	SE Forecast	Actual / Forecast
Income Statement						
Revenue	\$m	52.4	58.9	12.4%	58.9	-0.0%
SOM underlying EBITDA (\$m)*	\$m	3.9	4.9	27.8%	4.6	8.5%
EBITDA	\$m	3.2	3.9	24.4%	3.8	2.7%
NPAT	\$m	2.4	1.9	-21.7%	2.1	-11.4%
Abnormals (post tax)	\$m	-11.0	-18.3		-15.8	
NPAT (reported)	\$m	-8.6	-16.4		-13.6	
EPS	c	4.1	3.0	-26.7%	3.3	-11.0%
DPS	c	-	-	na	-	na
Cash Flow and Balance Sheet						
Operating CF	\$m	-9.5	-6.5		-6.2	
Investing CF	\$m	-2.2	-1.6		-1.8	
Financing CF	\$m	10.5	2.4		2.5	
Change in cash	\$m	-1.1	-5.8		-5.5	
Net cash on balance sheet	\$m	11.9	4.1	-65.7%	4.1	0.8%
Revenue						
North America	\$m	17.8	19.8	10.7%	19.7	0.1%
Europe	\$m	30.4	34.3	12.9%	34.3	-0.2%
Asia Pacific	\$m	4.2	4.9	16.3%	4.9	0.3%
EBITDA						
North America	\$m	2.3	1.7	-25.4%	2.8	-39.5%
Europe	\$m	5.6	6.1	8.5%	6.8	-9.8%
Asia Pacific	\$m	0.7	0.6	-19.4%	1.0	-42.6%
Corporate costs	\$m	-5.5	-4.5	-18.3%	-6.8	-34.0%

Source: Company data and Select Equities Research

* SOM underlying EBITDA (company defined) is pre share-based payments

RESULT v GUIDANCE

Core result (exc RSS) almost within guidance: Despite rising 27.8% to \$4.9m, SOM's FY19 underlying EBITDA result (excluding RSS, other abnormal items, and share based payments) was just short of guidance (\$5.0-5.5m). Meanwhile revenue rose 12.4% to \$58.9m, also just below guidance (\$60-61m), however this revenue number was already known as it was released as part of SOM's earlier 4Q19 4C Report.

NORTH AMERICA

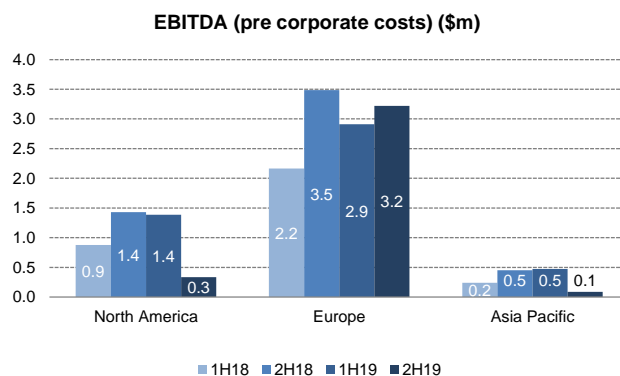
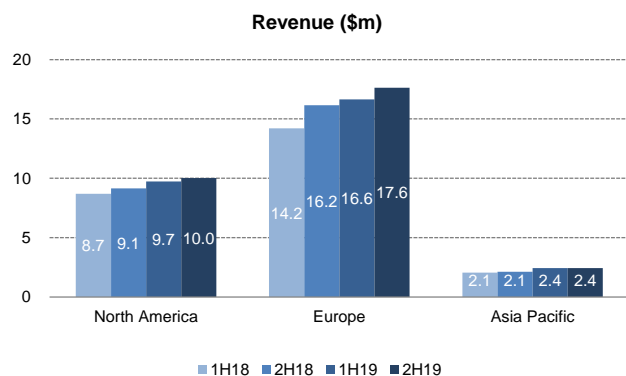
North America (exc RSS) seeing signs of life, but 2H19 margins were depressed: While FY19 revenue rose 10.7% to \$19.8m, this was helped by FX movements. We estimate revenue rose by ~2% in USD terms, however there was a strong recovery in the last quarter (we estimate 4Q19 rose ~9% in USD terms, albeit off a soft base). While EBITDA margins dropped from 14.2% in 1H19 to just 3.3% in 2H19, that this was due to the company maintaining its resourcing levels (ie. cost base) ahead of an expected further recovery in sales post RSS.

EUROPE

Europe impacted by short term issues in Holland and Sweden: While FY19 revenue rose 12.9% to \$34.3m (we estimate ~9% in EUR terms), growth slowed from 17.1% in 1H19 to 9.1% in 2H19 due to capacity constraints within the hospital system in Holland, and a delayed tender process in Sweden. We believe Holland and Sweden are SOM's 2 largest markets in Europe. As a result margins declined in 2H19, and FY19 EBITDA came in lower than we expected (\$6.1m v SE forecast \$6.8m).

ASIA PACIFIC

Asia Pacific also saw a 2H margin hit: FY19 revenue grew 16.3% to \$4.9m, however a significant decline in 2H margins saw FY19 EBITDA come in at just \$0.6m compared to our \$1.0m forecast. We understand this was caused by some additional short-term investment in the less developed markets of Japan and Korea, but margins elsewhere in the region were maintained.



Source: Company data and Select Equities Research

CORPORATE COSTS

Significant improvement in corporate costs: Although the group result was messy given the impact of RSS and the other below-the-line items, corporate costs fell significantly in FY19 which helped to offset some of the weakness in segmental performance.

RSS

Big reported loss largely caused by RSS: Total abnormal items of -\$18.3m (after tax), dragged SOM down to a reported loss for FY19 of \$16.4m. RSS (which closed down in Dec-18) accounted for \$16.4m of the \$18.3m in abnormals, including \$10.5m in operating losses, and \$5.9m in asset impairment and exit costs. The balance of the abnormal items mainly consisted of the S3 bad debt (\$1.1m), and severance payments (\$0.4m).

RSS gone, but still some lingering impact: While the company believes it fully provided for all RSS-related costs in the FY19 result, it is possible that there may be some further RSS-related cash outflow in FY20. In any case, we believe such cash outflow is not likely to be significant and should have no earnings impact in FY20.

BALANCE SHEET

Balance sheet and core operating cash flow ok: SOM finished FY19 with a cash balance of \$7.7m (or net cash of \$4.1m post \$3.6m in debt and lease liabilities). FY19 operating cash flow was -\$6.5m, however the core business (ex RSS) produced positive cash flow (\$2.6m).

SO WHERE TO FROM HERE?

We have had a negative view on RSS for some time for several reasons. However, with the closure of RSS we believe now is the time to re-evaluate the stock.

RSS LOSSES

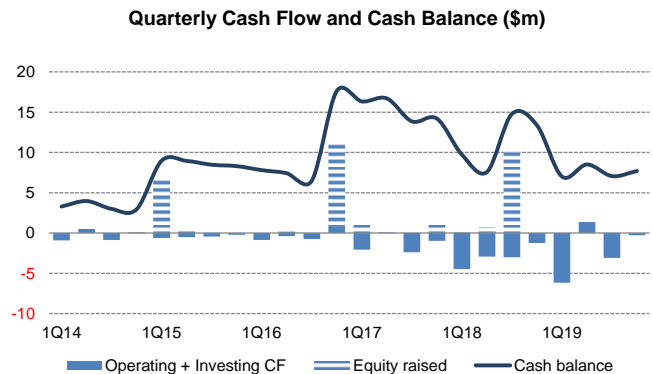
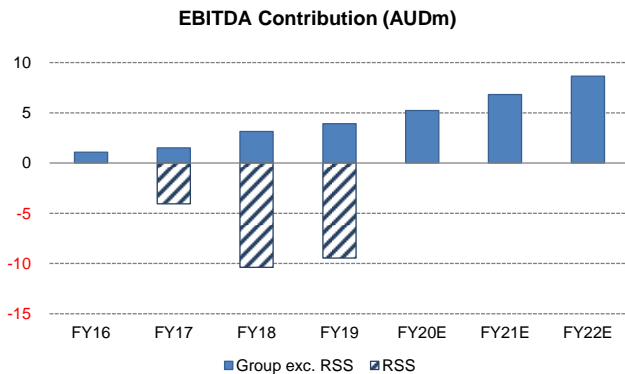
Issue 1 – RSS losses: Firstly, we had been concerned that SOM's RSS assumptions (ie. customer numbers, APRU, margins) were too optimistic. As it turned out, total RSS losses more than wiped out the profits from the entire core business over those 3 years (FY17-19) (first chart next page).

Issue 1 – resolved: With the closure of RSS these losses have been eliminated. However in terms of cash, we have factored in another \$1m in outflow in FY20 for any residual RSS payments, including expenses provided for but not paid in FY19, and any lease payments associated with the remaining RSS sites that have not yet been fully sub-let.

CASH RESOURCES

Issue 2 – Cash resources: Secondly, we were concerned that the need to fund RSS could become an unsustainable drain on SOM's cash resources. In the end, the ongoing cash outflows, coupled with the prospect of further cash calls, resulted in the company undertaking a second \$10m+ equity raising for RSS in FY18, and ultimately closing the unit and signing up for an unsecured \$5m short-term funding facility in FY19 (second chart next page).

Issue 2 – resolved: While the balance sheet was a key issue of concern over the past 3 years as RSS consumed significant cash, this is no longer the case. Our forecasts indicate FY19 is likely to be the low point in SOM's net cash balance. Of course, it is possible net cash could still decline further on a quarterly basis (particularly 1Q20), however we do expect net cash to rise during FY20. In addition, the company has already replaced its expensive \$5m working capital facility with cheaper funding.

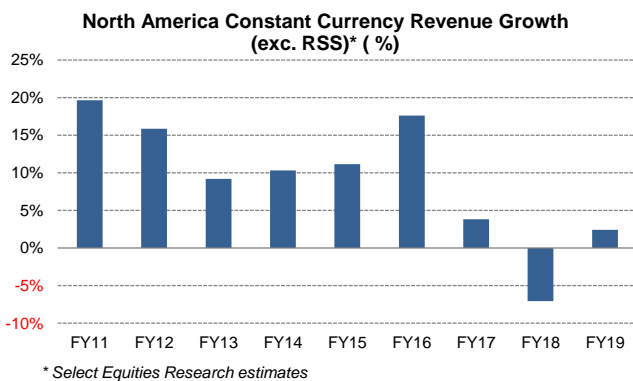


Source: Company data and Select Equities Research

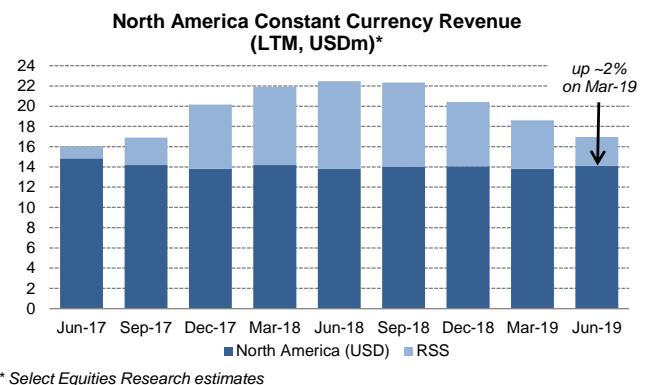
NORTH AMERICA

Issue 3 – North America channel conflict: Thirdly, we believed the launch of the direct-to-patient RSS model would result in channel conflict and negatively impact the core North American business. We estimate constant currency revenue in the core unit grew at 14% CAGR from FY10 to FY16, but then dropped to 0% CAGR over FY17-19 (first chart below).

Issue 3 – Starting to be resolved?: However, with the closure of RSS and the end of the significant management distraction, we believe the first signs of life may now be emerging in North America (second chart). SOM recently restructured its sales & marketing activities and has indicated some early success with a greater focus on the direct dental channel (+31% 4Q19). We also understand that SOM has been able to regain some small initial sales from some of the customers it lost due to RSS. Even though we do not expect it to ever regain 100% of the sales from 100% of those former customers, we do believe some further recovery is likely. We also believe that some of the old RSS market could also end up with SOM again. We appreciate that it is very early days in any potential US recovery, however we are encouraged with the appearance of some green shoots, and the presence of some clear air for the company post RSS to focus on driving the core business again.



Source: Select Equities Research



EUROPE – EMERGING ISSUES....

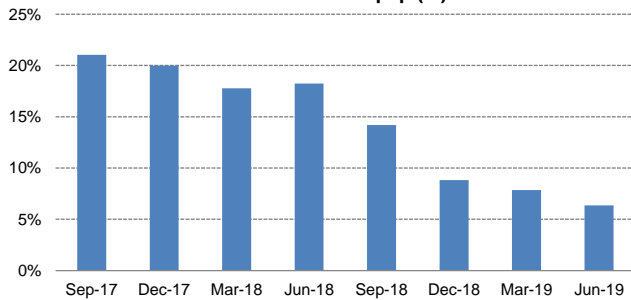
New issue – Europe: Throughout the RSS period Europe was a shining light for SOM, doubling EBITDA from \$3.1m in FY16 to \$6.1m in FY19 due to a decade of strong revenue growth (\$1.4m in FY10 to \$34.3m in FY19). However, over the last 3 quarters some issues emerged in Europe that we estimate slowed constant currency revenue growth from ~19% in FY18 to only ~9% in FY19 (see first chart next page):

- 2Q19: Deferral of sales in Sweden due to a technical laboratory issue, and logistical problems in France caused by the political disruptions;
- 3Q19: Hospital capacity limit in Holland and a tender problem in Sweden; and
- 4Q19: Continuation of both 3Q issues.

...ARE THEY SHORT TERM ISSUES?

Europe – Being resolved?: The question for investors is - are these issues genuinely short term in nature or has growth in Europe slowed down permanently? While we do not expect Europe to return to the 20% constant currency growth it achieved in recent times (FY16-18), we do anticipate a recovery in FY20 (12% EUR growth) as we do believe these recent setbacks can be overcome. We note Europe has continued to set new rolling 12-month revenue highs despite these issues (second chart), nevertheless we believe investors should be mindful of the potential for these problems to continue to linger which might negatively impact our revenue forecasts. On the other hand, our longer term revenue forecasts (10-12% EUR growth) could prove conservative should these issues be overcome, SOM gain traction with its new German insurer contract, or if COAT makes market share gains at the expense of CPAP.

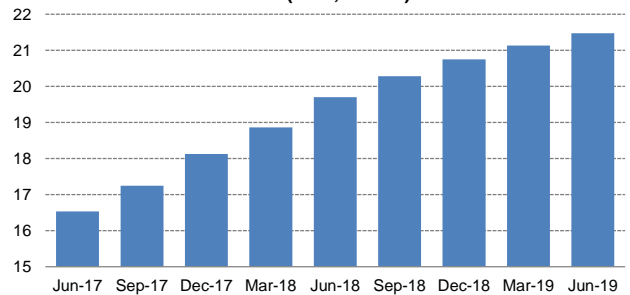
Europe Constant Currency Quarterly Revenue Growth v pcp (%)*



* Select Equities Research estimates

Source: Select Equities Research

Europe Constant Currency Revenue (LTM, EURm)*



* Select Equities Research estimates

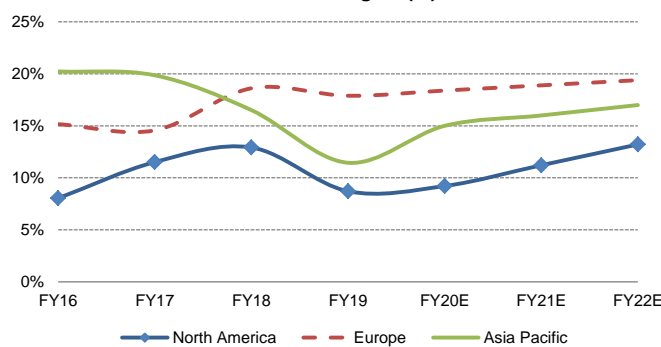
MODEST MARGINS

Forecasts not overly dependent on margin expansion: While we have factored in some margin recovery in both North America and Asia Pacific from their respective FY19 lows, we have not assumed any significant margin expansion (first chart below). Instead, our earnings forecasts are largely driven by top-line growth.

GUIDANCE OK

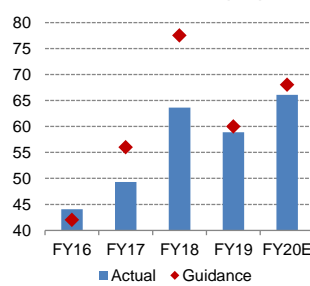
Guidance now looks achievable: SOM has had a history of largely missing the guidance it set itself at the start of the financial year (second and third charts). However, in our opinion the EBITDA guidance for FY20 (\$6.3-6.7m v \$4.9m in FY19) is arguably the most reasonable guidance the company has set at the start of the year for some time (particularly now the distraction from RSS is no longer present).

EBITDA Margins (%)



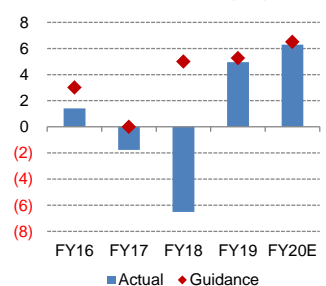
Source: Company data and Select Equities Research

Revenue Guidance at Start of Year v Result (\$m)



FY19-20 exclude RSS. Guidance is midpoint at start of FY. FY20 SE forecast.

EBITDA Guidance at Start of Year v Result (\$m)



FY19-20 exclude RSS. Guidance is midpoint at start of FY. FY20 SE forecast.

FINANCIALS
FORECAST REVISIONS

We have updated our forecasts following the FY19 result, and presented our FY22 numbers for the first time (page 8). In addition, we have changed our FX forecasts from 0.72 to 0.70 for the USD, and from 0.63 to 0.61 for the EUR.

FY19 Forecasts	Date	6-Nov-18	29-Jan-19	26-Mar-19	26-Apr-19	23-Jul-19	10-Sep-19
	Event	1Q19 Result	2Q19 Result	Trading Update ^	3Q19 Result	4Q19 Result	FY19 Result
	Price (\$)	1.62	1.70	1.79	1.85	1.74	2.12
Revenue (\$m)	72.1	63.4	59.8	58.5	58.9	58.9	
EBITDA (\$m)	-4.2	-5.3	3.9	3.8	3.8	3.9	
NPAT (\$m)	-4.2	-5.1	2.2	2.1	2.1	1.9	
EPS (¢)	-6.6	-8.0	3.5	3.3	3.3	3.0	
EV / Revenue (x)	1.3	1.6	1.8	1.9	1.5	1.5	
Recommendation	Hold	Hold	Hold	Hold	Hold	Accumulate	

^: From 25-Mar-19 we treated RSS as a discontinued operation for all years and removed it from core earnings.

Source: Select Equities Research

FY20 Forecasts	Date	6-Nov-18	29-Jan-19	26-Mar-19	26-Apr-19	23-Jul-19	10-Sep-19
	Event	1Q19 Result	2Q19 Result	Trading Update ^	3Q19 Result	4Q19 Result	FY19 Result
	Price (\$)	1.62	1.70	1.79	1.85	1.74	2.12
Revenue (\$m)	79.9	66.4	64.9	63.7	63.7	66.1	
EBITDA (\$m)	5.5	6.1	5.9	5.8	5.7	5.2	
NPAT (\$m)	3.0	3.7	3.4	3.3	3.3	3.0	
EPS (¢)	4.6	5.8	5.4	5.3	5.2	4.7	
DPS (¢)	-	-	-	-	-	-	
P/E (x)	34.9	29.3	33.1	35.2	33.3	45.5	
EV / EBITDA (x)	17.7	16.7	18.6	19.7	15.4	24.7	
EV / Revenue (x)	1.2	1.5	1.7	1.8	1.4	2.0	
Recommendation	Hold	Hold	Hold	Hold	Hold	Accumulate	

^: From 25-Mar-19 we treated RSS as a discontinued operation for all years and removed it from core earnings.

Source: Select Equities Research

PEER COMPARISON

Company	Code	Exch.	FX	Last YE	Price	Market Cap	EV	FY20E			FY21E			3-year CAGR (^wgt avg)				
								PE	EV / EBITDA	EV / Rev	PE	EV / EBITDA	EV / Rev	EPS	EBITDA	Rev	EBITDA Margin^	
					(local)	(AUDm)	(AUDm)	(x)	(x)	(x)	(x)	(x)	(x)	(x)	(%)	(%)	(%)	(%)
SomnoMed*	SOM	ASX	AUD	Jun-18	2.12	134	129	45.5	24.7	2.0	31.9	18.9	1.8	19%	29%	12%	8%	
Cochlear	COH	ASX	AUD	Jun-19	208.50	12,053	12,156	40.4	26.7	7.6	37.0	24.4	7.0	10%	9%	8%	29%	
Ellex Medical Lasers	ELX	ASX	AUD	Jun-19	0.59	85	80	na	na	0.9	na	28.8	0.8	na	na	9%	0%	
Fisher & Paykel H'care	FPH	NZSE	NZD	Mar-19	17.35	9,334	9,283	40.0	25.8	8.5	35.3	22.6	7.6	14%	12%	10%	33%	
ImpediMed	IPD	ASX	AUD	Jun-19	0.16	79	67	na	na	7.1	na	na	3.8	na	na	54%	-192%	
Micro-X	MX1	ASX	AUD	Jun-19	0.32	52	54	na	na	5.5	31.5	15.3	1.3	na	na	194%	-28%	
Nanosonics	NAN	ASX	AUD	Jun-19	6.87	2,061	1,989	156.5	108.5	18.9	88.4	54.4	15.1	59%	84%	30%	na	
Resmed	RMD	NYSE	USD	Jun-19	134.36	28,119	29,756	34.5	22.3	7.1	30.7	20.6	6.5	7%	13%	10%	31%	
Median (peers)						2,061	1,989	40.2	26.3	7.1	35.3	23.5	6.5	12%	13%	10%	14%	

Source: Select Equities Research (*) and Bloomberg
Last updated 10-Sep-19.

VALUATION = \$2.14
(previously \$1.61)

Our valuation is based on a combination of:

- **Group PE multiple:** Given SOM's smaller size compared to its peers (see table above), we have applied a 10% discount to the FY21 peer median peer.
- **Segmental EBITDA multiples:** Given the divergent size and growth profiles of each SOM segment, we have used raw multiples of 18x FY22 EBITDA for Europe, 16x for North America and 15x for Asia Pacific. We have then discounted back each of these raw multiples to allow for the longer dated EBITDA forecasts. (See second table below).
- **Segmental revenue multiples:** With the stabilisation of the business post RSS, we have added EV/revenue to our valuation mix. Similar to the segmental EBITDA approach, we have used raw multiples of 2.2x FY22 revenue for Europe, 2x for North America and 1.8x for Asia Pacific, and then discounted them back. (See third table).

Valuation Summary	Earnings (\$)	Multiple (x)	Valuation (\$)	Weight (%)
PE (x)	0.066	31.8	2.11	33%
EBITDA (x)	see below		2.03	33%
Revenue (x)	see below		2.27	33%
Blended Valuation			2.14	100%

Source: Select Equities Research

Valuation: EBITDA (x)	FY22E EBITDA* (\$m)	Multiple (x)	Total Value (\$m)	Value / Share (\$)
North America	3.4	13.2	44.8	0.71
Europe	9.3	14.9	137.7	2.18
Asia Pacific	1.1	12.4	13.7	0.22
Corporate costs	-5.1	14.3	-72.7	-1.15
Enterprise Value			123.4	1.95
plus: Net cash (FY20E)			4.9	0.08
Equity Value			128.3	2.03

Source: Select Equities Research

Note: Corporate costs multiple based on the weighted average

^ SOM is net cash, not net debt

Valuation: Revenue (x)	FY22E Revenue (\$m)	Multiple (x)	Total Value (\$m)	Value / Share (\$)
North America	25.6	1.7	42.4	0.67
Europe	47.7	1.8	86.7	1.37
Asia Pacific	6.5	1.5	9.7	0.15
Enterprise Value			138.8	2.20
plus: Net cash (FY20E)			4.9	0.08
Equity Value			143.7	2.27

Source: Select Equities Research

SomnoMed Ltd

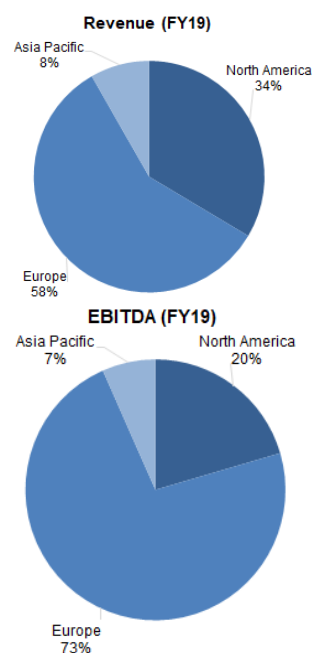
 FX forecasts: USD0.70
 EUR0.61

 Select Equities Research
 Financial Model

Code	SOM					June Year End	FY18	FY19	FY20E	FY21E	FY22E
Last sale (\$)	10-Sep-19					\$2.12					
# Shares (m)						62.8					
# Performance Rights and Options (m)						0.4					
Market Cap (fully diluted, \$m)						133.9					
less: Net Cash (FY20E, \$m)						-4.9					
Enterprise Value (fully diluted, \$m)						129.0					
June Year End	FY18	FY19	FY20E	FY21E	FY22E						
Financial Performance (\$m)											
Revenue	52.4	58.9	66.1	72.7	79.8						
Underlying EBITDA (\$m)*	3.9	4.9	6.3	8.0	9.8						
EBITDA	3.2	3.9	5.2	6.8	8.6						
D&A	-1.2	-1.4	-1.5	-1.8	-2.0						
Net Interest	0.1	-0.2	-0.2	-0.1	-0.0						
Tax	0.3	-0.4	-0.5	-0.7	-1.0						
NCI	0.1	-	-	-	-						
NPAT	2.4	1.9	3.0	4.2	5.6						
Abnormals (net)	-11.0	-18.3	-	-	-						
NPAT (reported)	-8.6	-16.4	3.0	4.2	5.6						
EPS (¢)	4.1	3.0	4.7	6.6	8.9						
DPS (¢)	-	-	-	2.0	3.0						
NTA / Share (\$)	0.39	0.16	0.20	0.26	0.32						
BV / Share (\$)	0.57	0.28	0.33	0.39	0.45						
RSS: Revenue	11.2	4.0	-	-	-						
RSS: EBITDA	-10.4	-9.5	-	-	-						
Valuation and Performance Ratios											
PE (x)	54.3	48.8	45.5	31.9	23.9						
EV / Revenue (x)	2.5	1.5	2.0	1.8	1.6						
EV / EBITDA (x)	40.8	22.5	24.7	18.9	14.9						
Revenue Growth (%)	10%	12%	12%	10%	10%						
EBITDA Growth (%)	110%	24%	33%	31%	27%						
NPAT Growth (%)	176%	-22%	57%	42%	34%						
EPS Growth (%)	167%	-27%	57%	42%	34%						
P / NTA (x)	5.6	9.2	10.4	8.2	6.5						
P / BV (x)	3.9	5.2	6.4	5.5	4.7						
Yield (%)	-	-	-	0.9%	1.4%						
Payout Ratio (%)	-	-	-	30%	34%						
Franking (%)	na	na	na	-	-						
EBITDA Margin (%)	6.0%	6.7%	7.9%	9.4%	10.8%						
NPAT Margin (%)	4.6%	3.2%	4.5%	5.8%	7.0%						
Tax Rate (%)	-14%	18%	15%	15%	15%						
Current Ratio (x)	2.5	1.3	1.3	1.5	1.7						
Interest Cover (x)	na	14.0	16.5	36.8	154.5						
Net (Cash) (\$m)	-11.9	-4.1	-4.9	-7.6	-10.9						
ROE (%)	7%	7%	15%	19%	21%						
ROIC (%)	7%	10%	18%	22%	27%						
Interim Results (\$m)											
	1H18	2H18	1H19	2H19							
Revenue	25.0	27.4	28.8	30.1							
Underlying EBITDA (\$m)*	0.9	3.0	1.3	3.6							
EBITDA	0.6	2.6	0.8	3.1							
D&A	-0.6	-0.6	-0.7	-0.7							
Net Interest	0.0	0.0	-0.0	-0.2							
Tax	-0.2	0.5	-0.1	-0.3							
NCI	0.0	0.1	-	-							
NPAT	-0.2	2.6	-0.0	1.9							
Abnormals (net)	-5.5	-5.6	-12.4	-5.9							
NPAT (reported)	-5.6	-3.0	-12.4	-4.0							
EPS (¢)	-0.3	4.3	-0.1	3.0							
DPS (¢)	-	-	-	-							
RSS: Revenue	6.6	4.6	3.9	0.0							
RSS: EBITDA	-4.4	-6.0	-7.0	-2.5							
Financial Position (\$m)											
Cash	13.4	7.7	7.5	9.2	11.5						
Receivables	14.1	10.7	12.2	13.4	14.8						
Inventory	2.0	1.9	2.0	2.2	2.4						
PP&E	5.7	3.2	4.1	4.5	4.7						
Goodwill	6.4	6.4	6.4	6.4	6.4						
Other Intangibles	1.4	1.4	1.4	1.5	1.7						
Other Assets	2.8	3.4	3.4	3.4	3.4						
Total Assets	45.7	34.8	37.1	40.7	44.9						
Payables	8.3	8.1	9.4	10.4	11.4						
Borrowings	1.4	3.6	2.6	1.6	0.6						
Other Liabilities	3.2	5.2	4.3	4.4	4.4						
Total Liabilities	12.9	16.9	16.4	16.3	16.3						
Ordinary Equity	36.1	17.8	20.8	24.4	28.5						
NCI	-3.4	-	-	-	-						
Total Equity	32.8	17.8	20.8	24.4	28.5						
Cash Flows (\$m)											
Net Receipts	0.4	7.6	5.0	6.4	8.1						
Net Interest	-0.0	-0.3	-0.2	-0.1	-0.0						
Tax	-0.1	-0.7	-0.5	-0.7	-1.0						
Other Operating	-9.8	-13.2	-1.0	-	-						
Operating Cash Flow	-9.5	-6.5	3.3	5.5	7.1						
Capex: PP&E (net)	-2.0	-1.3	-2.2	-1.8	-2.0						
Capex: Intangibles (net)	-0.2	-0.3	-0.3	-0.4	-0.4						
Acquisitions+Investments	-0.0	-0.0	-	-	-						
Other Investing	-	-	-	-	-						
Investing Cash Flow	-2.2	-1.6	-2.5	-2.2	-2.4						
Debt	-0.2	2.4	-1.0	-1.0	-1.0						
Equity	10.8	-0.1	-	-	-						
Dividends	-	-	-	-0.6	-1.5						
Other Financing	-	-	-	-	-						
Financing Cash Flow	10.5	2.4	-1.0	-1.6	-2.5						
Change in Cash	-1.1	-5.8	-0.2	1.7	2.3						
Cash at Start of Year	14.2	13.4	7.7	7.5	9.2						
FX Effect (net)	0.3	0.1	-	-	-						
Cash at End of Year	13.4	7.7	7.5	9.2	11.5						
Free Cash Flow (\$m)											
Operating Cash Flow	-9.5	-6.5	3.3	5.5	7.1						
Change in WC	-2.7	3.6	-0.2	-0.5	-0.5						
Normalised OCF	-12.2	-2.9	3.1	5.0	6.6						
Less Maintenance Capex	-1.5	-1.7	-2.0	-2.2	-2.4						
Free Cash Flow	-13.7	-4.6	1.1	2.8	4.2						
FCF / NPAT (%)	-568%	-242%	38%	68%	75%						
P / FCF (x)	na	na	119.3	47.2	31.7						
Segments (\$m)											
Revenue: North America	17.8	19.8	21.2	23.3	25.6						
Revenue: Europe	30.4	34.3	39.4	43.4	47.7						
Revenue: Asia Pacific	4.2	4.9	5.5	6.0	6.5						
EBITDA: North America	2.3	1.7	2.0	2.6	3.4						
EBITDA: Europe	5.6	6.1	7.3	8.2	9.3						
EBITDA: Asia Pacific	0.7	0.6	0.8	1.0	1.1						
EBITDA: other	-5.5	-4.5	-4.8	-4.9	-5.1						
Substantial Shareholders						No. (m)	%				
TDM*	director					12.4	19.8%				
Australian Ethical						6.6	10.5%				
Dottie Investments						5.1	8.2%				
Fidelity						3.3	5.2%				
Peter Neustadt	chair					3.2	5.2%				
Insiders (Board + CEO + CFO)						16.8	26.7%				

* Underlying EBITDA (SOM defined) is pre share-based payments

Source: Company data, Bloomberg and Select Equities Research

BACKGROUND INFORMATION
BUSINESS DESCRIPTION


- SOM is a developer, manufacturer and marketer of oral appliances for the treatment of sleep disordered breathing (SDB). Its core product offering is the SomnoDent MAS, an oral appliance (OA) known as a mandibular advancement splint (MAS) for the treatment of obstructive sleep apnea (OSA).
- The company markets a range of products and technologies, both proprietary and under licence, including the SomnoDent Classic, Flex, G2, Fusion, Herbst and Air product lines, the DentiTrac compliance system, and the MATRx sleep lab assessment system.
- SOM operates 3 segments across Europe, North America and Asia Pacific.
- In 2016 SOM established RSS (Renew Sleep Solutions) with Texas-based Simple Sleep Services (S3) to operate direct-to-patient sleep treatment centres in the USA. The company had planned to have 40 centres by 2020, but after reaching 16 sites (May-18) and continuing to suffer heavy losses, SOM decided to shut down the business (Dec-18).

RISK FACTORS

- SOM's position as market leader may be threatened by new entrants or the release of a superior product, while the benefits of SOM's research and marketing expenditure may not yield positive results.
- Given the SDB market is relatively undeveloped, demand may not eventuate as forecast. The greatest sources of risk to market demand are a lack of acceptance by the medical fraternity and the levels of insurance/government reimbursement.
- Downward pressure on prices may come from competition, lack of demand or insufficient insurance reimbursement.
- The risk that channel conflict in the US is both significant and permanent despite the closure of RSS, placing the long term future and returns profile of the existing US business into question.
- Ongoing financial risks associated with poor operating cash flow and declining cash reserves due to the RSS closure costs, including exposure to potential long-term contingent RSS lease liabilities.
- Partial reliance on debt funding.

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