SomnoMed Limited

Q2FY12: +24% device growth; maintain BUY

1 February 2012

$0.95

BUY

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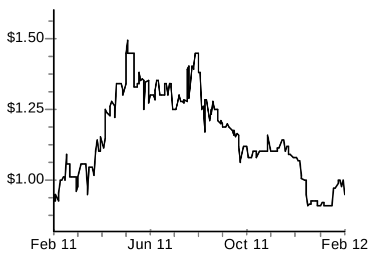
Price Performance



Security/Capital Details

ASX Code	SOM
Market Cap	$40 M
Issued Shares	42.0 M
Avg Mth T'over	0.63 M
12 Mth High – Low	$1.49 - $0.91

Key Data/Ratios – FY 2012

EBITDA / Sales	10.3%
EBIT / Sales	8.7%
Net Debt / Equity	-56.9%
Interest Cover	-7.4 x
ROE	21.6%
EPS Growth	64.7%
PEG Ratio	x
NTA / Share	$ 0.11
DCF	$ 1.53
12 Mth Price Target	$ 1.75

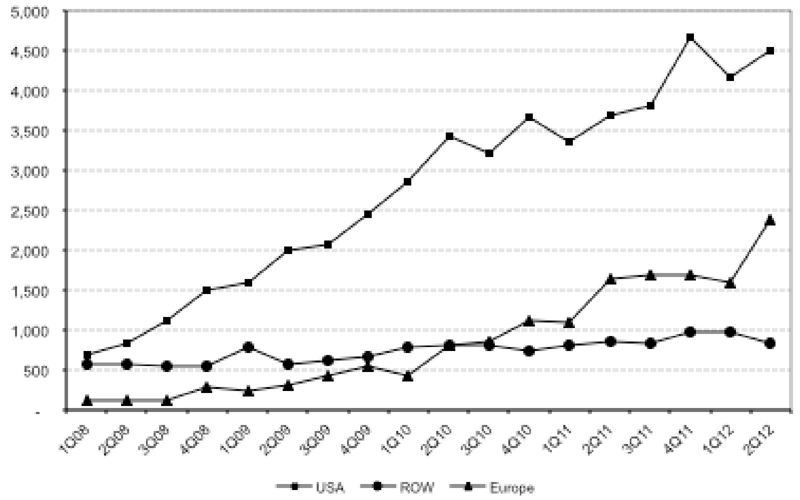
Recommendation

SomnoMed grew global device sales volumes +24% in Q2FY12 and lifted its gross margin to 69%. The company appears on track to deliver its guidance of 32,000 device sales and 25% revenue growth in FY12. Our price target is $1.75 per share after diluting for the acquisition of a Dutch distribution business. We maintain a BUY rating on SomnoMed in view of a 74% TSR. Our positive view on the stock reflects the growing opportunity for oral appliances in the treatment of obstructive sleep apnoea; particularly for mild-moderate disease, where we see a role for low-cost alternatives to CPAP.

Key Points

- **Q2FY12 trading update** – 7,711 units were sold in Q2FY12 (+24% on pcp). Unit growth was 44% in Europe and we estimate 20+% growth in the USA. Record sales achieved in both major territories. Device sales for 1H were in line with our expectations.

Figure 1: Quarterly SomnoDent unit sales FY08-12, by geography



Source: WHTM Research

- **Earnings outlook** – gross margin continued to improve, to 69% for Q2 (67% in Q1). We make small maintenance FY12-13 EPS adjustments but these are not material to our investment view. We are forecasting 17,400 device sales in 2H, which is in line with SomnoMed's FY12 guidance of 32,000. Our revenue forecast of $15.4m is consistent with company guidance of 25% growth over FY11.
- **Dutch acquisition** – SomnoMed will acquire the Dutch distribution company Goedegebuure Slaaptechniek B. V. (GS) for consideration of c.A$2.7m, of which c.A$0.3m has already been paid in cash. The balance will be settled in SOM stock over the next 5 years. Issue prices will be linked to net profit generated by the GS business in Netherlands.
- **Valuation and recommendation** – price target is $1.75 per share based on DCF. BUY rating maintained with 74% TSR. SomnoMed remains a preferred investment in healthcare given the scope of the growing opportunity for oral appliances in the treatment of obstructive sleep apnoea, established reimbursement in the major markets and their consistent business plan execution.

Year to June	NPAT (Rep) $M	EPS (Norm) c	EPS Growth %	PER x	P/CF x	EV/EBITDA x	DPS c	Div Yld %	Franking %
2011a	0.7	2.0	-7.0	63.1	-166.7	58.2	0.0	0.0	0
2012e	1.5	3.3	64.7	29.1	21.8	26.5	0.0	0.0	0
2013e	3.3	6.9	112.9	13.7	12.7	11.7	0.0	0.0	0
2014e	4.5	9.4	34.9	10.2	9.5	8.0	0.0	0.0	0

SomnoMed Limited (SOM : $0.95)

INVESTMENT FUNDAMENTALS

Yr Ending June	2010A	2011A	2012E	2013E	2014E
EPS Reported (c)	2.0	1.8	3.1	6.8	9.2
EPS Normalised (c)	**2.1**	**2.0**	**3.3**	**6.9**	**9.4**
EPS Growth (%)	N/A	-7.0%	64.7%	112.9%	34.9%
PER Normalised (x)	**39.4**	**63.1**	**29.1**	**13.7**	**10.2**
DPS (c)	0.0	0.0	0.0	0.0	0.0
Payout (%)	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Franking (%)	0%	0%	0%	0%	0%

VALUATION DATA

Yr Ending June	2010A	2011A	2012E	2013E	2014E
EV / EBITA (x)	369.8	73.7	29.7	12.4	8.4
EV / EBITDA (x)	160.8	58.2	26.5	11.7	8.0
CFPS (c)	1.2	-0.8	4.4	7.5	10.0
Price / CF	**71.8**	**-166.7**	**21.8**	**12.7**	**9.5**
Book Value / Share ($)	0.1	0.2	0.2	0.2	0.3
Price / Book (x)	**6.0**	**8.1**	**5.9**	**4.1**	**3.0**

PROFIT & LOSS ($m)

Yr Ending June	2010A	2011A	2012E	2013E	2014E
Sales Revenue	10.7	12.3	15.4	20.6	26.3
EBITDA	0.2	0.8	1.6	3.3	4.4
Depreciation	0.1	0.2	0.2	0.2	0.2
EBITA	**0.1**	**0.6**	**1.4**	**3.1**	**4.2**
Amortisation	0.1	0.1	0.1	0.1	0.1
EBIT	**0.0**	**0.6**	**1.3**	**3.0**	**4.1**
Net Interest Expense	-0.1	-0.1	-0.2	-0.3	-0.4
Pre-tax Profit	**0.1**	**0.7**	**1.5**	**3.3**	**4.5**
Tax	-0.7	-0.1	0.0	0.0	0.0
Tax rate (%)	-589.5%	-10.6%	0.0%	0.0%	0.0%
Minorities / pref divs	0.0	0.0	0.0	0.0	0.0
Equity accounted NPAT	0.0	0.0	0.0	0.0	0.0
Net Profit	**0.8**	**0.7**	**1.5**	**3.3**	**4.5**
Abn's / Extraord's	0.0	0.0	0.0	0.0	0.0
Reported Net Profit	0.8	0.7	1.5	3.3	4.5
Revenue Growth (%)	N/A	15.1%	24.8%	33.7%	27.6%
EBIT Growth (%)	N/A	2,200.0	133.9%	126.7%	33.4%
NPAT Growth (%)	N/A	-6.0%	106.5%	116.6%	35.6%

PROFITABILITY RATIOS

Yr Ending June	2010A	2011A	2012E	2013E	2014E
EBIT / Sales (%)	**0.2%**	**4.7%**	**8.7%**	**14.8%**	**15.5%**
ROA (%)	N/A	13.8%	22.9%	40.0%	44.1%
ROE (%)	**N/A**	**12.4%**	**21.6%**	**34.6%**	**33.4%**
ROFE (%)	N/A	34.6%	49.5%	88.4%	103.8%

INTERIMS ($m)

Half Yr	Dec 10	Jun 11	Dec 11	Jun 12	Dec 12
Yr Ending June	**1H A**	**2H A**	**1H E**	**2H E**	**1H E**
Sales Revenue	6.0	6.4	6.8	8.6	9.2
EBIT	0.3	0.3	0.4	0.9	1.2
Net Profit	**0.3**	**0.4**	**0.5**	**1.0**	**1.3**
EBIT / Sales (%)	4.4%	4.9%	6.4%	10.6%	13.3%

BALANCE SHEET ($m)

Yr Ending June	2010A	2011A	2012E	2013E	2014E
Cash	**4.3**	**3.9**	**4.5**	**7.5**	**11.3**
Receivables	1.6	2.2	2.7	3.6	4.5
Inventories	0.2	0.2	0.3	0.5	0.6
Other	0.0	0.0	0.0	0.0	0.0
Current Assets	**6.1**	**6.3**	**7.5**	**11.5**	**16.5**
Net PPE	0.6	1.1	1.5	1.8	2.3
Investments	0.0	0.0	0.0	0.0	0.0
Intangibles	0.2	0.3	1.5	1.5	1.7
Other	0.8	0.9	1.0	1.0	1.0
Non-current Assets	**1.7**	**2.4**	**3.9**	**4.3**	**5.1**
Total Assets	**7.8**	**8.7**	**11.4**	**15.8**	**21.5**
Current Payables	1.9	2.2	3.2	4.2	5.4
Current Debt	0.0	0.0	0.0	0.0	0.0
Non-Current Debt	0.0	0.0	0.0	0.0	0.0
Provisions	0.3	0.3	0.3	0.4	0.4
Other	0.0	0.0	0.0	0.0	0.0
Total Liabilities	**2.2**	**2.5**	**3.6**	**4.6**	**5.8**
Equity	23.7	24.0	24.2	24.2	24.2
Reserves	1.3	0.8	0.8	0.8	0.8
Retained Profits	-19.4	-18.7	-17.1	-13.8	-9.3
Minorities	0.0	0.0	0.0	0.0	0.0
Total Equity	**5.7**	**6.2**	**7.9**	**11.2**	**15.7**
Total Funds Employed	**1.4**	**2.3**	**3.4**	**3.7**	**4.3**

LIQUIDITY & LEVERAGE RATIOS

Yr Ending June	2010A	2011A	2012E	2013E	2014E
Net Debt (Cash) ($m)	-4.3	-4.0	-4.5	-7.5	-11.3
Net Debt / Equity (%)	**-75.9%**	**-63.5%**	**-56.9%**	**-67.2%**	**-72.4%**
Interest Cover (x)	-0.3	-6.1	-7.4	-12.0	-9.8
Debt / CashFlow (x)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

CASHFLOW ($m)

Yr Ending June	2010A	2011A	2012E	2013E	2014E
EBIT	0.0	0.6	1.3	3.0	4.1
Dep'n and Amort'n	0.2	0.2	0.2	0.3	0.3
Net Int Rec'd (Paid)	0.1	0.1	0.2	0.3	0.4
Tax Paid	0.0	0.0	0.0	0.0	0.0
Dec / (Inc) W'kg Cap	0.1	-0.6	0.5	0.2	0.2
Other	0.0	-0.6	-0.1	-0.1	-0.1
Operating Cash Flow	**0.5**	**-0.3**	**2.1**	**3.6**	**4.9**
Capital Expenditure	-0.5	-0.3	-0.4	-0.6	-0.8
Asset Sales	0.0	0.0	0.0	0.0	0.0
Investments	0.0	-0.1	0.0	0.0	0.0
Other Inv. Flows	0.0	0.2	0.0	0.0	0.0
Investing Cash Flow	**-0.5**	**-0.3**	**-0.4**	**-0.6**	**-0.8**
Equity Raised	0.4	0.3	0.1	0.0	0.0
Inc / (Dec) in Loans	0.0	0.0	0.0	0.0	0.0
Dividends Paid	0.0	0.0	0.0	0.0	0.0
Other Fin. Flows	0.0	0.0	0.0	0.0	0.0
Financing Cash Flow	**0.4**	**0.4**	**0.1**	**0.0**	**0.0**
Net Cash Flow	**0.4**	**-0.2**	**1.9**	**3.0**	**4.1**

Recommendation Structure
BUY: Total return +10% or more over a 12 month period
HOLD: Total return expected to be between +10% to -10% over a 12-month period
SELL: Total return expected to be -10% or more over a 12 month period
TOTAL RETURN OR TSR = capital growth in share price + expected dividend yield in that period

Other definitions

CS Coverage Suspended. Wilson HTM Ltd has suspended coverage of this company.

NR Not Rated. The recommendation has been suspended temporarily. Such suspension is in line with Wilson HTM Investment Group Ltd policies in circumstances where Wilson HTM Corporate Finance Ltd is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations.

Disclosure of Interest. SomnoMed Limited

The Directors of Wilson HTM Ltd advise that at the date of this report they and their associates have relevant interests in SomnoMed Limited . They also advise that Wilson HTM Ltd and Wilson HTM Corporate Finance Ltd A.B.N. 65 057 547 323 and their associates have received and may receive commissions or fees from SomnoMed Limited in relation to advice or dealings in securities. Some or all of Wilson HTM Ltd authorised representatives may be remunerated wholly or partly by way of commission.

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