

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Name of entity

SomnoMed Limited

ABN

35 003 255 221

Quarter ended ("current quarter")

31th December 2016

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	11,563	22,559
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(3,583)	(7,677)
(c) advertising and marketing	(842)	(2,706)
(d) leased assets	-	-
(e) staff costs	(4,324)	(8,686)
(f) administration and corporate costs	(1,917)	(3,665)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	39	69
1.5 Interest and other costs of finance paid	(16)	(17)
1.6 Income taxes paid	(227)	(821)
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	693	(944)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(706)	(922)
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property, licence and access rights	(3)	(210)
(e) other non-current assets	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
2.2 Proceeds from disposal of:		
(a) property, plant and equipment	-	-
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other (provide details if material)	-	-
2.6 Net cash from / (used in) investing activities	(709)	(1,132)

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	-	585
3.2 Proceeds from issue of convertible notes		
3.3 Proceeds from exercise of share options	98	551
3.4 Transaction costs related to issues of shares, convertible notes or options	(22)	(51)
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	-	-
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
3.10 Net cash from / (used in) financing activities	76	1,085

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of quarter/year to date	16,335	17,632
4.2 Net cash from / (used in) operating activities (item 1.9 above)	693	(944)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(709)	(1,132)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	76	1,085
4.5 Effect of movement in exchange rates on cash held	318	72
4.6 Cash and cash equivalents at end of quarter	16,713	16,713

5. Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1 Bank balances	10,709	9,962
5.2 Call deposits	6,004	6,373
5.3 Bank overdrafts	-	-
5.4 Other (provide details)	-	-
5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)	16,713	16,335

6. Payments to directors of the entity and their associates

	Current quarter \$A'000
6.1 Aggregate amount of payments to these parties included in item 1.2	64
6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	

Payments made during the quarter include directors' fees

7. Payments to related entities of the entity and their associates

	Current quarter \$A'000
7.1 Aggregate amount of payments to these parties included in item 1.2	-
7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

N/A

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

N/A

9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	(50)
9.2 Product manufacturing and operating costs	(5,000)
9.3 Advertising and marketing	(2,000)
9.4 Leased assets	-
9.5 Staff costs	(4,700)
9.6 Administration and corporate costs	(1,700)
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows	(13,450)

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity	N/A	N/A
10.2 Place of incorporation or registration	N/A	N/A
10.3 Consideration for acquisition or disposal	N/A	N/A
10.4 Total net assets	N/A	N/A
10.5 Nature of business	N/A	N/A

Renew Sleep Solutions opens first two centres in Q2

Somnomed Limited announced that its subsidiary Renew Sleep Solutions, Inc. ("RSS"), formerly Sleep Centres America, Inc. treated its first patients in its first two sleep centres in the State of Oklahoma, USA in December. Both centres were launched ahead of schedule and break first ground in the Company's plan to roll out treatment centres across the US.

"This is a true milestone for RSS and SomnoMed. We are very excited about the future of RSS and its centres, treating patients who suffer from Obstructive Sleep Apnea ("OSA") with a trusted and well researched alternative COAT™ appliance," said Mr Jim Evanger, CEO of RSS. "The opening of these two centres represents the very beginning of building a "Direct to Patient" channel and will form the basis and template from which we will build future centres," Mr Evanger said.

SomnoMed Global CEO Mr. Derek Smith commented, "The RSS team has done a tremendous job. Preparation for the establishment of the next centres is underway and all augurs well for us to remain on track to open 5 centres by 30 June 2017, as promised." He added, "The initial opening costs and capital investment were both under budget, which is a pleasing result."

RSS aims to bring OSA treatment solutions primarily to the patients who are diagnosed and unable to tolerate CPAP and also those who notice symptoms of OSA and need diagnosis and treatment, both of whom are currently not receiving treatment. RSS centres will work closely with medical and dental specialists in diagnosis and treatment. Patients are found through "Direct to Patient" advertising, which is also expected to increase patient flow to SomnoMed North America's network of educated sleep dentists.

"The US is well behind many of the other markets in which SomnoMed operates in the adoption of COAT™," commented Mr. Smith. "Most of our marketing and sales activities are traditionally aiming to increase the acceptance and patient referrals from medical specialists to our network of educated sleep dentists. However according to our estimates, there are some 10 to 15 million patients in the US who have been diagnosed with OSA but refuse to be treated with CPAP or have dropped out after trying it. Further, many US patients are still not made aware of COAT™ as a medically effective and comfortable alternative to CPAP by their medical specialists, despite clear statements by the American Sleep Association recommending COAT™ as an effective treatment for mild and moderate patients and severe patients intolerant to CPAP. SomnoMed has been in the forefront of developing the COAT™ market in the US through its medical initiatives and will continue to do so. Targeting these patients, which traditional channels are not effectively capturing, is the principle objective of RSS. S3, a similar organization to RSS in Texas, has demonstrated that this can be done very successfully while traditional channels continue to flourish," Mr Smith added.

SomnoMed's core business generated sales of 33,309 SomnoDent® devices during the first half of the financial year 2016/17, up by 14.9%. Revenues grew by 11.5% to \$23.8 million (unaudited) during the same period. EBITDA generated in SomnoMed's core business came to \$1.4 million (unaudited), up by over 57% compared to the result achieved in the same period in the previous year. RSS generated start up EBITDA losses of \$1.0 million (unaudited) during the same period.

Europe's sales volume grew year on year by 18.1% and represented 36.9% of global sales. Strong growth was recorded in a number of the 16 countries SomnoMed operates in. Positive changes in reimbursement for COAT™ were announced in France and in Belgium and are likely to contribute to continuing strong growth in sales in Europe.

Australian sales performed well in the second quarter, as some practitioners returned to use predominantly SomnoDent® devices after unsuccessfully trying out an alternative device, which had been recently launched in the Australian market. The increase in demand observed in the second quarter is expected to contribute to solid growth in the second half of the year.

Whilst we have seen sales in South East Asia starting to grow well, sales in both Japan and South Korea were subdued, still struggling with the lack of any reimbursement offered for COAT™ in those countries.

North America recorded sales of 18,128 units, 15.5% higher than in the same half year period in the previous year. Direct sales in this market were behind expectations, reflecting adverse reactions of some practitioners to the announcement and launch of RSS centres.

“Since the announcement of the formation of RSS, a few months ago, SomnoMed received enquiries from a number of our customers. Some are apprehensive about a possible channel conflict between their practices and RSS, whilst others are enthusiastically embracing the concept of broadening the adoption of COAT™ and increasing the patient flow across the board. Our belief is that the RSS approach will raise the water level for all practitioners and once this becomes clearer this turbulence will subside. We expect that RSS will increase the growth rate of our US business substantially from next financial year onwards and contribute to the overall increase in the adoption of COAT™ adding to the already successful traditional channels,” commented Mr Smith.

“Sales volumes and revenues generated in the first half of the financial year were around 5-7% behind our expectations, caused primarily by lower than budgeted direct sales in the US. At the same time, our unaudited gross margin on MAS devices sold globally for the first half year was 69.3% (unaudited) and consequently our profits generated in our core business exceeded start-up losses of RSS for the half year (unaudited), which is ahead of our expectations. In the light of this and positive trends in various segments of SomnoMed’s global and US Managed Care business and the faster implementation of the RSS roll out indicate that, as previously advised, the company will break even overall for the financial year 2016/17 and achieve its volume and revenue targets. As we further progress with the introduction of the RSS initiative in the second half of the year, we will gain a better understanding of the dynamics affecting our direct sales volumes and revenues in the US market as a result of the RSS rollout,” commented Mr Smith.

During the second quarter of the financial year SomnoMed generated \$380,000 in cash, after investing \$740,000 in the initial start-up, opening and launch of its first two RSS centres, as well as establishing and recruiting for the Texas based RSS head office and operations centre. Cash position at the end of December was \$16.7 million.

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.



Sign here:
Company Secretary

Date: 23rd January 2017

Print name: T A Flitcroft

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.