



Renew Sleep Solutions opens first two centres in Q2

23rd January 2017, SomnoMed Limited (ASX:SOM) 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 centers.

“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.

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About SomnoMed

SomnoMed is a public company providing diagnostic and treatment solutions for Sleep-related Breathing Disorders including obstructive sleep apnea, snoring and bruxism. SomnoMed was commercialized on the basis of extensive clinical research. Supporting independent clinical research, continuous innovation and instituting medical manufacturing standards has resulted in SomnoDent® becoming the state-of-the-art and clinically proven medical oral appliance therapy for over 300,000 patients in 28 countries. For additional information, visit SomnoMed at <http://www.somnomed.com.au>