



Renew Sleep Solutions well ahead of plan

26th April 2017, SomnoMed (ASX:SOM) announced today that its subsidiary Renew Sleep Solutions, Inc. ("RSS"), in the USA had opened its fourth treatment centre in St.Louis, Missouri on the 13th April. Mr Derek Smith, CEO of SomnoMed Limited, said, "With the opening of the fourth centre and the opening of the fifth centre scheduled for mid May, RSS is well ahead of plan and likely to exceed its target to have five outlets operating by the end of this financial year. Opening five or more outlets in six months is a great credit to the RSS team and shows that our expectation to build a significant network of treatment outlets across the US over the next three years is feasible."

Mr Jim Evanger, CEO of RSS, commented further saying, "We are ahead of plan despite a very tight commercial real estate market. We are fortunate that we were able to find excellent locations for every RSS centre. Early results of our first centres are in line or above our expectations – patient call volumes, appointments and fitting of devices are all in line with our model assumptions and key cost areas are well controlled and either on or below budget."

At the same time, SomnoMed North America is still managing the reaction of some practitioners to the perceived channel conflict. "We have increased efforts in explaining the RSS concept to our SomnoMed customers and have seen some success during the third quarter, with a number of practitioners either returning to SomnoMed or increasing their orders. Whilst Third quarter volumes of SomnoDent[®] devices sold by SomnoMed North America were down in the first two months of the quarter compared to last year, March sales were ahead of last year indicating that our initiatives are achieving results," said Mr Smith.

"Results in markets such as North Texas where Simple Sleep Solutions has been operating an RSS like model for several years, have shown that this kind of approach benefits all channels and practitioners. We expect the same to occur in all of the markets that RSS launches its Direct to Patient initiative. We believe the high level of advertising, which increases patient awareness as to the treatment of sleep disordered breathing, is to everyone's benefit in that particular geography. As practitioners come to realise this I believe they will embrace this approach," commented Mr Smith.

Europe continues to perform exceptionally well, growing its third quarter sales year on year by 26% and in March continued this strong trend. This strength enabled European quarterly sales to surpass North American sales for the first time in the Company's history in the third quarter. APAC sales for the quarter represented 8.8% of the total sales. Sales for the group in the third quarter came to 14,931 units, up by 6.7%, bringing the total for the year to 48,241 units (+12.2%).

"Sales in Europe are continuously strengthening in our core markets and in emerging markets," said Mr Smith. "New records are being written in several countries. Even markets which we considered as mature, such as Holland and Sweden, where SomnoMed has a large market share, were able to achieve growth rates of 20% or more in the third quarter. The initial impact of new reimbursement regulations in France meant we were able to lift growth in the third quarter to over 40% year on year. We are very pleased with these results and believe that further countries in Europe will continue to adopt COAT[™] increasingly as an effective, more comfortable and less expensive treatment alternative to CPAP," said Mr Smith.

Revenues for the quarter came in at \$11.25 million (unaudited), up by 2% year over year (8% with constant exchange rate) reflecting the stronger Australian dollar exchange rate movements and subdued sales in North America. Year to date revenues now stand at \$35.04 million (unaudited), up by 8%.

“Whilst we saw signs at the end of Q3 that our US business was stabilising and US sales are expected to grow at a greater rate during Q4 (as indicated by April sales being well ahead of last year), the reaction to the launch and opening of RSS of some of our customers affected our US sales in Q3 more than we expected,” said Mr Smith. “As a result, we believe that the volume of devices sold globally for the financial year 2016/17 is now expected to reach 67,000 (revised from 71,000), combined revenues expected to be \$50 million or \$53 million at constant exchange rates (compared to \$56 million) and EBITDA expected to be a loss of \$1.5 million (revised from break-even)”, added Mr Smith.

“In spite of the lower than expected results in the current financial year, we remain very excited and confident about our prospects for 2017/18. The faster roll out of RSS treatment centres than planned, signs of increasing growth in sales in the US in our core business, combined with strong expectations for European sales in 2017/18 augur very well for the coming year. We expect high growth for our US business in 2017/18 driven by RSS outlets, expanding managed care sales and a recovery in our sales to our sleep dental network. This financial year 2016/17 will be seen as a transitional year leading into a period of strong growth starting with 2017/18, continuing for the next three years and beyond,” said Mr Smith.

Cash outflow for the quarter was \$1.88 million, of which approximately \$1.4 million related to start up expenditure of RSS opening and operating its treatment centres. The cash balance of 31 March was \$13.9 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>