

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

SomnoMed Limited

ABN

35 003 255 221

Quarter ended ("current quarter")

31th March 2017

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	12,405	34,964
1.2 Payments for		
(a) research and development	(50)	(50)
(b) product manufacturing and operating costs	(4,756)	(12,433)
(c) advertising and marketing	(1,810)	(4,516)
(d) leased assets	-	-
(e) staff costs	(4,778)	(13,464)
(f) administration and corporate costs	(2,917)	(6,596)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	39	108
1.5 Interest and other costs of finance paid	13	(4)
1.6 Income taxes paid	(11)	(832)
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(1,879)	(2,823)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(395)	(1,317)
(b) businesses (see item 10)	-	-
(c) investments	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
(d) intellectual property, licence and access rights	(2)	(212)
(e) other non-current assets	-	-
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)	(103)	(103)
2.6 Net cash from / (used in) investing activities	(500)	(1,632)

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	16	567
3.4 Transaction costs related to issues of shares, convertible notes or options	(3)	(54)
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	13	1,098

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	16,713	17,632
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(1,879)	(2,823)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(500)	(1,632)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	13	1,098

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	(486)	(414)
4.6	Cash and cash equivalents at end of quarter	13,861	13,861

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	8,721	10,709
5.2	Call deposits	5,140	6,004
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)	13,861	16,713

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 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

Current quarter \$A'000
64
-

Payments made during the quarter include directors' fees

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

- 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

Current quarter \$A'000
-
-

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	(5,500)
9.3 Advertising and marketing	(2,000)
9.4 Leased assets	-
9.5 Staff costs	(5,000)
9.6 Administration and corporate costs	(1,700)
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows	(14,250)

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 well ahead of plan

SomnoMed 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.

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: 26th April 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.