



Revenue growth up 45% in Q2

24th January 2018, SomnoMed Limited (ASX:SOM) announced that its group revenues grew by 45% in the second quarter compared to the prior year reaching \$18.5 million for the three months period. Growth was driven by SomnoMed's "Direct to Patient" US subsidiary Renew Sleep Solutions, Inc. ("RSS"), allowing North American revenues to grow by over 75% in the second quarter year on year. Excellent growth in revenues of 26% was also achieved in SomnoMed's European operations, whilst APAC revenues remained flat in the second quarter.

The RSS business grew rapidly in Q2 for a number of reasons, including the maturation of the early centres, contributions from newly opened centres, improvements in optimizing marketing and patient flow, as well as the end of the calendar year insurance driven treatment seasonality in the USA. RSS has opened 12 sleep centres in the first 12 months of its operations, with the first four centres completing their first full year of trading during the March 2018 quarter.

Overall, our North American Business revenue grew by 75% in Q2 primarily driven by RSS. Our traditional business in the USA saw revenues improving in the second quarter over the previous one but still subdued due to the reaction of some US customers to the launch of RSS and a perceived channel conflict. Consistent with trends seen in the past and in particular in Q1 good growth was achieved in direct sales to SomnoMed customers, whilst sales to our licensees fell sharply year on year. Canadian sales were impacted negatively in the second quarter due to the restructuring of our sales organisation. We are optimistic that our Core Business in North America will continue its recovery and grow again as changes in our Sales and Marketing approaches are expected to impact positively and new opportunities are being explored.

"This is again another milestone for both RSS and SomnoMed. Whilst RSS is still at a very early stage we can already see the huge impact it has on the growth of our company. We are very excited about the future of RSS and its ability to treat patients who suffer from Obstructive Sleep Apnea ("OSA"), in a patient centric way, with trusted and qualified Clinicians and Dentists, using leading SomnoMed appliances," said Mr Derek Smith, Global CEO of SomnoMed. "The results seen from RSS begin to indicate the real opportunity that this "Direct to Patient" channel can become and will significantly contribute to the Group's performance for many years to come," Mr Smith said. "The performance of the first four centres, which are nearing their first full year of operations have met our original goals, which is a pleasing result given that the start-up of every centre was slower than expected. The seasonal uplift in volumes and revenues in Q2 was anticipated and in line with the timing of the US insurance year," Mr Smith added.

RSS aims to bring OSA treatment solutions to the patients who are diagnosed and unable to tolerate CPAP, and also to those who are not yet diagnosed but notice symptoms of OSA. Both types of patients are currently not receiving treatment and the goal is to reach out by direct to patient marketing and get these people the right kind of treatment as soon as possible. SomnoMed has developed the COAT™ market in the US through its medical and dental initiatives and will continue to do so. RSS is seen as an additional and complimentary channel and service to accelerate the penetration of Oral Devices and to access those patients currently not getting treatment for OSA.

In Europe our business continues to be very strong with signs of further acceleration, as we posted an encouraging Q2 26% revenue growth. This is being driven by our core Scandinavian and Benelux business, as well as encouraging growth in France. Other countries also posted good results and the outlook for Europe remains very positive.

APAC experienced flat growth in the second quarter suffering primarily from the lack of insurance reimbursement, which prevents a wider use of COAT™. Whilst Europe and North American revenues grow fast, APAC's share of our global revenues is now less than 6%.

SomnoMed's core business in the first half of the year generated an unaudited EBITDA of \$1 million, after absorbing group corporate overheads. For the same period RSS generated start up EBITDA losses of \$4.4 million (unaudited) resulting in SomnoMed Group's net EBITDA loss being \$3.4 million (unaudited). "As foreshadowed at the end of the first quarter, the Company had experienced lower than expected sales growth in our Core SomnoMed Business in North America and a slower than expected take off trajectory of all RSS centres in their first six to nine months of operations. Despite a strong and much improved second quarter for the Company, these factors have contributed to a lower than expected Group EBITDA for the half year. The performance of the more mature RSS centres is very positive and exactly where we planned it to be after one year, it's just that the "take off" in the first 6 to 9 months of operations is generally slower than anticipated. Our mandate is to build the RSS network as quickly as possible and that is clearly having an impact on our group EBITDA during the build-up phase," commented Mr Smith.

As a result of observing the initial take off profile of RSS centres and applying that growth curve also to the additional centres planned to open during the second half we have to expect greater start-up losses for RSS in 2017/18 than anticipated. We also remain cautious in our expectations for the growth of our core business in the US in the second half, despite the improvements in direct sales we experienced in the second quarter. As a result, we expect group revenues to grow between 35% and 40%, close to \$70 million for the year. Rising profits in our core business, combined with reduced losses in RSS are expected to achieve a break even position for the second half year, leaving the result for the financial year 2017/18 at a negative group EBITDA of \$3.5 to \$4 million.

During the second quarter of the financial year SomnoMed generated \$2 million in operating cash from the core business. An investment of \$5.1 million was made in RSS during the quarter for the opening and launch of a further two RSS centres, funding the already opened ten centres, as well as expanding the Texas based RSS head office and operations centre by bringing more services in-house earlier than initially envisaged and developing its operational procedures, both of which impact the current year's results and should be very beneficial in the short to medium term for the business. Cash position at the end of December 2017 was \$7.6m.

Contact: Mr. Neil Verdal-Austin, CFO

Ph +61 2 9467 0400 or +61 (0) 406 931 477 – mobile

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 390,000 patients in 28 countries. For additional information, visit SomnoMed at <http://www.somnomed.com.au>