

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")

31st December 2017

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	16,025	28,329
1.2 Payments for		
(a) research and development	(39)	(67)
(b) product manufacturing and operating costs	(6,333)	(11,003)
(c) advertising and marketing	(3,845)	(7,284)
(d) leased assets		
(e) staff costs	(5,681)	(11,344)
(f) administration and corporate costs	(2,681)	(4,891)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	7	34
1.5 Interest and other costs of finance paid	(12)	(16)
1.6 Income taxes paid	(39)	(176)
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(2,598)	(6,418)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(300)	(872)
(b) businesses (see item 10)	-	-
(c) investments	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
(d) intellectual property, licence and access rights	(32)	(101)
(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)	-	(25)
2.6 Net cash from / (used in) investing activities	(332)	(998)

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	-	-
3.2 Proceeds from issue of convertible notes	-	-
3.3 Proceeds from exercise of share options	588	588
3.4 Transaction costs related to issues of shares, convertible notes or options	-	-
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	(27)	(27)
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other - proceeds from advances (provide details if material)	128	195
3.10 Net cash from / (used in) financing activities	689	756

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	9,741	14,210
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(2,598)	(6,418)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(332)	(998)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	689	756
4.5	Effect of movement in exchange rates on cash held	78	28
4.6	Cash and cash equivalents at end of quarter	7,578	7,578

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	6,441	6,469
5.2	Call deposits	1,137	3,272
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)	7,578	9,741

6. Payments to directors of the entity and their associates

- | | Current quarter
\$A'000 |
|-----|------------------------------------|
| 6.1 | 66 |
| 6.2 | - |
| 6.3 | |

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 | - |
| 7.2 | - |
| 7.3 | |

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)	588	-
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.		

SomnoMed Limited entered into finance lease agreements with Quadrent SPV(No.2) Pty Ltd for \$588,000 with a weighted average interest rate of 3.4% p.a. for 60 months.

9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	(100)
9.2 Product manufacturing and operating costs	(6,100)
9.3 Advertising and marketing	(4,000)
9.4 Leased assets	-
9.5 Staff costs	(6,000)
9.6 Administration and corporate costs	(2,800)
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows	(19,000)

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

Revenue growth up 45% in Q2

SomnoMed Limited 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.

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: 24th January 2018

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.