



Strong first quarter in the SomnoMed Core business diluted by weak RSS results

26th October 2018, SomnoMed (ASX:SOM) announced today that its Q1 revenues were \$14.8 million, representing growth of 14% over the same quarter last year.

Revenue growth in the three key regions was 5% in North America, 22% in Europe and 15% in APAC. Overall the SomnoMed Core device business showed strong quarterly revenue growth of 19%, with revenues of \$13.15 million, while RSS showed a negative growth of 15%, with revenues of just over \$1.65 million.

In Europe we continue to see very strong results in Q1 even though Q1 is typically a slow quarter. Our European results continue to be fuelled by high growth in our more established markets in Nordic and Benelux, as well as strong results in emerging markets such as Germany, France and the UK. France in particular is showing consistent unit growth in excess of 25% and recent improved re-imburement levels for the SomnoDent® devices will help accelerate this growth.

In our traditional, core North American business, excluding RSS, we were happy to post Q1 revenue growth of 15% (7% real growth excluding exchange rate effect). This positive result, after previous quarters of negative revenue growth is encouraging and is an indicator that our new sales and marketing strategy in North America is slowly starting to show progress and drive positive growth.

Renew Sleep Solutions (“RSS”) had a disappointing quarter. Despite the fact that the volume of patients increased 12% over last year, revenue declined by 15%. This is due to lower re-imburement levels as a result of RSS being ‘in network’ with more insurance companies, treating more Medicare patients and including some observed reductions in general re-imburement levels. Some of this re-imburement pressure will abate as we work through the pent up demand in Medicare and the increased volumes expected as the deductibles effect diminishes in the latter part of the calendar year. Significant changes in the RSS footprint and in the number of centres announced previously as well as tactical improvements have been implemented but have not yet had a chance to meaningfully change results. Q2 for RSS will be a significant quarter as we see the impact of some of these changes, as well as it being the largest quarter for demand. RSS closed an additional centre in October bringing the total number of operating centres to 7. This closure was a result of changed market conditions regarding the insurance landscape, which made the long term viability of this centre questionable. RSS has again consumed significant cash this quarter, which was to be expected.

It has also been pleasing to see APAC results pick up in Q1, posting revenue growth of 15%, which is in-line with long term expectations. Australia contributed to most of this growth, with 18% revenue growth in Q1, driven by a focused and targeted medical strategy aligned with reinforcing the dental education platform at the same time.

The ongoing digital product development is very promising and is currently undergoing patient acceptance trials. Early results seem to indicate very positive patient and dentist acceptance, as well as good efficacy results.

Overall Q1 results for the traditional SomnoMed Core business were stronger than expected, which has been offset by difficult results by RSS. While Q1 was not expected to yield significant improvements in RSS due to the recent changes and not having time to see improvements, it was none-the-less below plan. Although business volumes are starting to build into Q2 as more and more patients meet their deductible insurance thresholds, the long term viability of this business model is constantly being evaluated.

Operating cash outflow for the quarter was \$5.8 million, due largely to the continuing funding of the RSS centres. The cash balance of 30th September 2018 was \$7 million. The second quarter cash outflow will be significantly reduced, due to the greater demand and sales volume connected to the seasonally stronger December quarter for SOM and RSS, as well as the reduced monthly costs from only having 7 centres in operation together with lower head office expenses. The cash balance is expected to be maintained around the \$7 million level at 31st December 2018.

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 commercialised 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 obstructive sleep apnea. SomnoDent® is the most comfortable and effective design and treatment solution for in excess of 445,000 patients in 28 countries. For additional information, visit SomnoMed at <http://www.somnomed.com.au>