



The Manager
Company Announcements Office
Australian Securities Exchange Limited
20 Bridge St
Sydney NSW 2000

Chairman's AGM address by Dr Peter Neustadt
2018 Annual General Meeting
27th November, 2018

Dear Shareholders

Two important decisions have been made by your Board in the last ten days:

1. To reach agreement with our Company's CEO, Mr Derek Smith, to step down and to appoint Mr Verdal-Austin as new CEO of SomnoMed Limited.
2. Today we decided to close all operations of our RSS subsidiary from 1st January 2019.

Both decisions need some further explanation.

Two and a half years ago we decided to proceed with the implementation of the S3 business model of a "Direct to Patient" concept for the treatment of OSA in treatment centre to be set up across the US by our US subsidiary Renew Sleep Solutions, Inc.

The decision was based on the successful three year history of S3, which had started operations in Texas during the financial year 2012/13. By 2016 S3 had become the biggest customer of SomnoMed North America and demonstrated the financial viability of its concept.

The first RSS centre opened in December 2016 and early results of the first group of four centres seemed to confirm our original assumptions. The reaction to our initial advertising campaigns was good. In total we have received over 60,000 inquiries since RSS started operations. As with any new business, there were a number of issues which were considered to be solvable and not abnormal given the complexity and novelty of the business. These included initial start-up issues in our call centre, in the arrangement and timing of sleep diagnoses, in the accreditation of dentists with insurers, in finding the right media strategy and advertising content and in lifting the conversion rates.

However, two external factors became of growing importance over the two years and in the last few months had a devastating impact on the RSS business:

1. Significant increases in health insurance premiums have occurred in the USA since the beginning of the 2017, which led to high increases in “deductibles” (the amount of cost the patient has to pay out of his or her own pocket before the insurer starts to contribute). This has impacted on medical treatments which were considered to be non-essential (elective). Many patients delayed their decision to proceed once they realised the amount of money required to pay out of their own pocket, given the higher level of deductibles than previously. Whilst we saw this initially as a sign of a more pronounced seasonality of our medical business, it has reduced the overall demand more than we expected, dragged our conversion rate down and produced lower patient numbers than we expected.
2. In the last six months we have experienced a reduction in the average yield per patient received by RSS of around 25%, linked to the reduction or reimbursement amounts by certain insurers. The reduction in yield, high advertising cost and lower patient numbers than expected increased the losses to an unsustainable level in the last few months. The closure of some centres in September this year created some relief but not sufficient to make a fundamental difference to the economic viability of the business and its likely future funding requirements.

Whilst we believe there may be a future for a “Direct to Patient” approach for the treatment of OSA, especially given the lower acceptance of COAT™ in the US compared to other countries we are operating in, it would require more time, more money and a lot of good management to turn RSS into the business we were originally expecting to have.

Further, even given time and money, there were other risk factors to consider if we decided to continue with RSS. Such risks include the possibility of more insurers reducing the level of reimbursement, further negative reactions from SOMNA’s customers, much more capital needed, as losses could possibly stretch into 2019/20, and the distraction of our group management. Each of these risks could impact on the positive prospects of SomnoMed’s core business, which offers significant growth potential in the future.

As a result the Board has made the tough decision today to close the RSS operation on 1st January 2019. The objective is now to focus on aggressively building our core business, to review and control central and corporate cost areas, with the aim to grow our profits significantly in the years to come.

The impact RSS has had on the value of our stock has been very significant and is deeply regretted. As I said previously, the Board truly believed there was an opportunity to significantly increase the size of our operations in North America. We remained hopeful, even in August this year, that we could build on the experience gained over the past 18 months and see significant improvements in patient numbers and operational efficiencies delivering much improved results over the seasonally important last five months of the insurance year. Unfortunately this has not been the case, despite our best efforts and the significant investment made. On behalf of the Board of SomnoMed Limited I apologise to you, our shareholders, for the losses incurred by RSS over the last two years.

The second major decision the Board made recently related to the appointment of a successor to Mr Derek Smith. Derek started his position as CEO of SomnoMed on 1st September 2016. Given the assumptions we had made at the time, it was considered essential to have a US based CEO to be physically close to the new RSS business planned to start at the end of 2016 and our North American core business. However, circumstances have changed and given the way forward for SomnoMed in the future the Board decided it was essential to make a change in the leadership of our Company. On behalf of our Board I thank Mr Smith for his service, especially for his good work in the regulatory area, guiding and upgrading our capabilities in technology, our approach to global production, and strengthening our product development department.

In appointing Mr Verdal-Austin as SomnoMed's new CEO, the Board selected a candidate who has worked for our company for over ten years successfully as CFO. In addition to his CFO role, Neil also managed as Executive VP SomnoMed's APAC region, with our businesses in Australia, New Zealand, Singapore and South Korea for a period of four years from 2014 to the end of June this year. Neil is a very experienced, dynamic, commercial and hands on executive. He is very much liked by our executives and staff around the world. The Board believes that Neil is the right executive to work through all the things which need to be done to return SomnoMed to being a stable, growing and profitable business from the beginning of next year. In a moment Neil will talk to you directly about his priorities and the way forward.

Neil has worked for some 25 years in various positions in medical device companies in South Africa, the UK and Australia. During his time as CFO he had a direct and close involvement in our business in Europe and the US. Neil has lived in Sydney since 2007. Allow me to present SomnoMed's new Chief Executive Officer, Mr Neil Verdal-Austin.

Chief Executive Officer's address by Mr Neil Verdal-Austin
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Thank you Peter and it is indeed an honour to address you today as your new CEO. Today we will begin on a new journey for SomnoMed Limited. Throughout my 10 years at SomnoMed I have become more passionate about this business, its global opportunity and what the treatment means to our patients. A leadership transition, although generally disruptive within any organization, will be significantly minimized in this case due to my tenure and close working relationships with all the senior regional executives. Together with that team we deeply understand the business, its principal drivers and the markets in which we operate.

The aim and purpose of this address is to provide the following:

1. Company update
2. Vision and plan for the future
3. My immediate priorities

Firstly, on the company update, you have just heard from our Chairman that the business Renew Sleep Solutions ("RSS") will be closed from 1st January 2019. Importantly, we will ring fence and contain all close costs to ensure that this is minimized and concluded as quickly as possible.

The RSS venture was developed to accelerate the acceptance of Continuous Open Airway Therapy ("COAT™") in the US market through direct to consumer marketing. Whilst we are enjoying strong market leadership and excellent growth in many European markets and in Australia, the acceptance of and the demand for, custom made quality oral appliances was growing much more slowly in the USA. This is due to weaker medical guidelines and a general reluctance of sleep specialists to recommend a different treatment to CPAP, which has become well established although low compliance rates seem common and more prevalent.

Throughout the RSS venture we have learnt a great deal about the insurance landscape and where it makes sense, we will transfer some of those new-found skills and learnings to the SomnoMed North American business model.

Following from that, it is now my intention to focus the SomnoMed teams within all regions of the company on our core business. We will concentrate on the more traditional medical referral pathways in the US, which we have done very successfully in Europe and in APAC, strengthen medical research, medical guidelines and our marketing and sales programs, especially those directed at the medical specialists.

We aim to re-build the confidence in all stakeholders to bring SomnoMed North America back onto a solid growth path. The elimination of ongoing significant operating losses of RSS from the beginning of next year, combined with our growing revenues and profits in our core business, should allow us to return to the positive growth dynamics we have seen in SomnoMed for many years in the past and to restore shareholder value.

The overall market fundamentals for our company remain strong. There is a growing incidence and diagnosis of Obstructive Sleep Apnea (“OSA”), increasing clinical research and evidence that support clinical guidelines recommending the oral appliance treatment and a constant revision of reimbursement policies that support COAT™.

We have a quality product range that is designed and constructed for patient comfort and durability, tried and tested operational strength and reach, competitive service advantage, manufacturing capacity and a digital pathway that will bring further efficiencies and enhanced service delivery to our customers and patients.

The SomnoMed “Core” business within all three regions remains strong, resilient and shows good growth.

- The business in the USA has underlying strength and a growing customer base that generates ongoing and repeat business. The news of the RSS closure will probably not return the majority of the lost customers due to the RSS experience and we accept that. The business will, however, return to positive growth as we continue to implement and drive our new sales and marketing initiatives. The Canadian operation has also begun to reinvigorate the market and attract new direct customers.
- Europe continues on its growth pathway where we see ongoing positive changes to reimbursement and in the overall acceptance and adoption of COAT™ throughout the region. The strength of SomnoMed’s leadership position in many European countries is due to the consistent marketing approach we used for many years, involving both the medical and dental communities and being closely aligned with the major healthcare insurers.
- Within APAC, Australia is performing well and is focused on delivering the patient preferred obstructive sleep apnea oral appliance solution to the many sleep physicians and dentists that accept COAT™ as an alternative to CPAP. SomnoMed enjoys a strong market leadership in Australia and, despite the lack of reimbursement, has been able to grow the number of patients who are being treated with COAT™ year after year. Korea and Japan both show ongoing signs of breaking through the awareness barrier and into acceptance and further adoption of the therapy.

As we near the end of Quarter 2, the SomnoMed core business remains on plan for the first half and despite the loss of volumes we will see in the second half due to the closure of RSS, we confirm the current SomnoMed Core Guidance as it is for FY19. The European and APAC businesses are performing well and within the US, we will see increased sales to our growing US network of customers and new sales initiatives compensate for the RSS lost volumes.

The costs to close RSS will be in the range of A\$3-4million and will be made more certain as we negotiate the sub-leasing of the various premise’s leases.

Secondly, let me briefly outline my plan for the future of SomnoMed. This company will focus on remaining the leader in the design, innovation and digital manufacture of COAT™ devices in all OECD countries by concentrating on further clinical research, technology enablers, reimbursement and ensuring that the organization follows a strong and robust marketing plan that guides the sales tactics and activities in all regions.

We have just reached the important milestone of treating over 450, 000 patients worldwide with a high level of compliance and comfort. We now own 100% of all SomnoMed entities in all direct markets in which we operate and are dedicated to reaching and treating more and more patients with this therapy. We will concentrate on developing our staff and ensuring we demonstrate a culture based on strong ethical values and beliefs, in sound business principles and an attitude of respect and collaborative behaviour towards all internal stakeholders.

Thirdly, my priority right now is to re-focus SomnoMed back onto a safe and credible pathway, optimizing revenue growth and building group profitability. To achieve this, I will consult with all regions in focusing on our people and culture, re-assessing all sales and marketing plans, reviewing all head office costs and CAPEX projects and then conclude on the best course of action. I believe that this can be achieved in the short term. I will then begin to look at further growth opportunities to allow both organic growth and third-party partnerships to contribute to that broader business growth objective within the sleep industry.

Finally, I am pleased to report that we have also secured a working capital facility to ensure that we have sufficient funds to conduct our business activities and see no need to raise capital in the market.

I would also like to thank those shareholders who have maintained their interest and have continued to support SomnoMed over this difficult time period and also trust and hope that others who have left the fold, will consider returning. I plan to further update you on our core business at the time of the half year results presentation in February 2019.

Thank you for the opportunity to lead your company.