

# Investor News

Compumedics  
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## 2003/2004 Financial Results – Strong Growth Continues

Compumedics recently reported that sales in the twelve months to June 30, 2003 were up 62% to a record \$32 million. Earnings before interest, tax, depreciation and amortisation (EBITDA) improved to a \$2.1m profit, a \$3m improvement on the previous year.

Before adjustments for certain expense items and an accounting policy review in relation to revenue recognition, earnings after tax improved by \$2.0m to a \$0.1m profit. With the rapid development of the business the company has decided to align its accounting treatment of intellectual property expense items and revenue recognition with the evolution of the business. After these reviews the result was an after tax loss of \$18.6m. The adjustments relate to a revision of the company's treatment of revenue, research and development costs and intellectual property acquired. In total, these adjustments have reduced revenues by \$0.9m and earnings after tax by \$18.7m.

The 62% increase in operating revenues reflects both the strong growth of the Company's core global diagnostic sleep business and the increased sales base resulting from the Neuroscan acquisition.

The USA sleep business performed strongly with growth year on year of just over 50%. Significant inroads were made into the USA resulting from the switch to direct Compumedics distribution. The USA strategy and decisions are proving to be correct and the business is now on firm ground for continued USA growth.

Following the appointment of Dräger as its partner/distributor, the Company is pleased to note that sales in Europe have increased by 45%. Although much of this is due to another initiative, the full impact of Dräger will be in the current financial year. Once again the strategy and decision appears to be correct in positioning the business for ongoing strong growth.

## Governments reap handsome rewards from Compumedics grants

Over the years Compumedics has received a number of government grants that have enabled the company to develop the technology and products that today generate more than \$32m annually in sales revenue. Almost 90% of this revenue now comes from outside Australia. These grants are not handouts, but rather investments in the future from which governments expect to receive dividends, albeit indirect ones. Compumedics has delivered dividends well beyond what would have been anticipated when the grants were made. As a result of the rapid growth of the company, governments at all levels are benefiting from the taxes that Compumedics and its employees contribute annually.

Since 1992 Compumedics and its associates have received \$1.6m in concessional loans and \$3.6m in government grants. Over the same period the company and its employees have paid approximately \$14.2m in various taxes, representing a return of over 300% to the government on their investment. Today Compumedics and its staff pay approximately \$3m annually in taxes to local, state and federal governments.

Compumedics management are most grateful for the government support the company has received and proud that they have been able to repay that support so comprehensively. The company looks forward to further opportunities for cooperation with all levels of governments as it embarks on its next phase of growth.

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COMPUMEDICS  
LIMITED

# CEO's message



This year was a test for the Compumedics people and mettle. We delivered a \$3m positive improvement in earnings before interest, tax, depreciation and amortisation. Our operating cash and debtors were positive and under control. We achieved sales growth of 62% year on year.

At the same time, we moved to new world-class custom built facilities in Melbourne and have a new product pipeline that is the strongest in our history, expounding our unique strategy of being a broad based diagnostic company with a focus and unique edge in sleep diagnostics.

### ***What were accounting reviews for?***

The reviews that led to the adjustments in this year's accounts were related to two factors, revenue recognition and intellectual property. In both instances the Directors considered how the business has grown and changed over the last few years and the impact this growth and change has had on the way the company accounts for its revenue and intellectual property.

In both situations the Directors took into account where the business is currently at, its future development and current and future practices for financial reporting of these items.

On review of these factors the Directors decided to adjust the treatment of both. In relation to revenue recognition the Directors decided to defer a portion of revenue to better reflect the post sale training and installation obligations of the Company now that the Company earns the majority of its revenue through direct sales to end-user customers.

In relation to intellectual property the Directors took account of the existing valuations, future projections of the business, current and future financial reporting practices for intellectual property, the growth and change to the business to date. On review of all these factors the Directors decided that intellectual property values should not be carried on the balance sheet.

### ***Do these adjustments mean that the company does not have confidence in delivering a return in the future from the intellectual property it owns?***

No, quite the contrary. The Directors still fundamentally believe that the intellectual property that the Company has generated internally and acquired to date will deliver significant returns over the years to come. The company has a history stretching back almost 20 years over which returns have been delivered and it sees no reason to believe this won't continue.

However the Directors again considered the business' performance to date, current and future accounting requirements, the future direction of the business and current best practice in financial reporting and decided to adjust the asset values to reflect these factors.

### ***Putting the accounting reviews aside, what is your assessment of the performance of the business for the financial year?***

The business has performed very strongly considering the external factors the business had to deal with, particularly during the second half of the year, such as the rising exchange rate and SARS in Asia.

Excluding the accounting review adjustments the business was strongly positive at the EBITDA line improving \$3.0m over the past year to \$2.1m and breakeven at the after tax line at \$0.1m, a \$2.0m improvement over the prior year.

The core sleep business has performed very strongly around the globe with revenues growing by over 50% in the USA, 45% in Europe and 100% in Japan.

The European business was boosted with the signing of a major new distribution deal with Dräger Medical for our sleep products into that territory and also benefited from the Neuroscan acquisition.

The Melbourne based manufacturing activities were moved to new world class facilities on a lease that was recently extended from 6 to 8 years.

The Neuroscan business now has been fully integrated and the European and Asian parts of that business performed strongly. The USA business did not perform to plan as a result of the delay in Synamps2, however this was released in June 2003 and has enjoyed strong acceptance since then.

Taking all these factors into account the business has done very well although much more remains to be done, to attain benchmark profitability targets.

### ***What other structural changes have been made to the company?***

One of the key changes has been to appoint a Chief Operating Officer to manage the day-to-day running of our business. We are a much bigger and broader company now and I found I wasn't able to do justice to both the operational and developmental aspects of the Chief Executive's role. With the appointment of Mr. Andrew Smith to the COO role, I am now able to focus on the technologies and partnerships that will be the future of Compumedics.

### ***What are the major achievements in the past year?***

There have been many achievements during the year across the entire business. Some of the more important achievements have been:

- A three-year \$10 million European distribution and technology development deal with one of the world's leading medical instrument companies, Dräger Medical.
- 100% growth in the Japanese market year on year after 10 years of investing in the building of a strong relationship with Teijin.
- FDA clearance to sell Somté in the lucrative US market.
- Canadian approval to market the Somté portable sleep diagnostic device.
- Australian Federal Trade Minister official opening at Compumedics' Melbourne world class manufacturing facility.
- Patents for novel diagnostic sleep treatment products potentially taking Compumedics' expertise into the much larger field of treatment for sleep disorders.
- Exciting developments in the new Medical Innovation areas.



David Burton  
Executive Chairman and CEO

# SynAmps2

## Power Unleashed

SynAmps was released to the market in 1992 as the most powerful electrophysiological amplifier in the world. Over 1,300 SynAmps are now serving researchers around the globe.

Compumedics Neuroscan is now pleased to announce the SynAmps2, which raises the research standard for amplifiers to a new level.

SynAmps2, which continues to use the integrated software programmable approach that allows for the greatest flexibility in data acquisition, is the foundation for quality high-density recordings. Set apart from the competition, SynAmps2 is the only solution that offers uncompromised high-density data. As all subsequent analyses are affected by the quality of the original recording, it is imperative to choose the right recording system.

In developing SynAmps2, Compumedics Neuroscan has vigorously pursued superior solutions for research applications. Data quality has never been compromised for quantity of channels, preparation time or cost.

The SynAmps2 has been engineered utilising the absolute latest technologies to deliver a product that will exceed the requirements of the most demanding protocols. Paramount in the SynAmps2 design is Active Noise Cancellation circuitry, which has produced an amplifier so quiet that electrode preparation is no longer

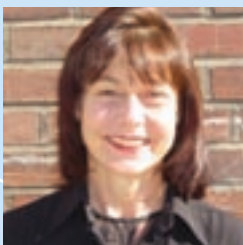
essential. More importantly, SynAmps2 is the only system that provides the flexibility for both standard and the unique "no preparation" method of electrode placement. This allows researchers the ability to balance time constraints and data quality.

SynAmps2's capability to exceed 500-channels (when clinical systems have only up to 64 channels) illustrates the power and potential of the system.



## P R O F I L E

### Professor Joy Hirsch PhD. Columbia University, NY, USA



Dr. Joy Hirsch is the Director of the fMRI (Functional Magnetic Resonance Imaging) Research Centre, in the Department of Radiology and Psychology, Centre for Neurobiology and Behaviour at Columbia University, New York, USA. She is also a professor of Psychology and Functional NeuroRadiology.

Dr. Hirsch's areas of interest include the functional systems of the brain, specifically in the areas of cognition (eg. language and memory), sensation (eg. vision and hearing) and motor control. She is also interested in the effects of various forms of therapy on these cortical systems.

Dr. Hirsch uses Neuroscan technology to identify specific areas of activation in the brain that are associated with such functional systems. As EEG provides the accurate time-related information, our system will often be used as the primary tool to investigate the order of cerebral activation in these functional systems. The 256-channel electrode array used to record EEG allows for advanced 3D localisation of the cortical areas generating these electrically recorded signals. One of the goals that the laboratory has is the simultaneous recording of EEG with MRI to correlate these active areas.

*The fMRI Research Center is currently using Compumedics Neuroscan 256 Channel ESI system and the 64-Channel MagLink system, in conjunction with the powerful SynAmps amplifier.  
For more information, visit the laboratory website at: [www.fMRI.org](http://www.fMRI.org).*

## University of Michigan Medical Center Selects Compumedics for Sleep Disorders Lab



**University of Michigan  
Health System**

The prestigious Michael S. Aldrich Sleep Disorders Laboratory at the University of Michigan (UofM) Medical Center in Ann Arbor recently selected the Compumedics E-Series PSG Systems for their 13-bed sleep lab. As part of the purchase, the UofM Sleep

Disorders Laboratory is acting as a development center for the new ProFusion neXus Network Services Software.

The UofM Sleep Disorders Laboratory is one of the earliest centers in the US to be dedicated to clinical and research work in sleep disorders. After evaluating a number of other vendors for new digital polysomnography systems to replace the eight-year-old technology they had been using, the department selected Compumedics.

Compumedics installed the systems for monitoring sleeping patients in thirteen beds in the lab. The installation in May this year included the ProFusion neXus software platform that enables the lab to operate efficiently and at much lower cost than alternate approaches.

The ProFusion neXus software was installed with the aim of improving efficiencies in the lab's operations and functions, a tool much needed in today's increasingly busy and data-intensive healthcare environment.

ProFusion neXus allows all study results to be accessed, reviewed and interpreted from any of the 25-workstation clients connected through the UofM wide area network. Managing the immense amount of information generated from this advanced sleep lab had become a significant challenge and a limitation to future growth. ProFusion neXus is a scalable platform that makes the planned growth of the lab into new areas, including 9 beds to be installed at a remote site, cost effective.

By using the ProFusion neXus software as a data management tool, combined with the advanced capabilities of the Compumedics E-Series PSG System, it is anticipated that the lab will be better positioned to manage large amounts of data from increasingly complex diagnostic studies.

## Setting New Standards in the USA

Compumedics sleep diagnostic business in the United States has grown significantly in all parts of the market. From large university hospital laboratories to private companies providing contract services, Compumedics offers the right solution for each particular need. Customers have seen important advantages to the highly developed network philosophy engineered into Compumedics' products. Utilising unique approaches to hardware design and network integration, Compumedics continues to be at the forefront in this fast-growing field. With the recent addition of ProFusion neXus, a fully integrated SQL database, Compumedics has now set a new standard for dynamic information exchange and workflow management. The highly technical United States market, which is always quick to recognise and utilise well designed laboratory management tools, is finding ProFusion neXus particularly appealing.



### Key US sleep sites installed within the last year

1. University of Michigan, Ann Arbor, MI
2. Maine Medical Center, Portsmouth, ME
3. Carolina Sleep Services, Charlotte, NC
4. ENT and Allergy Associates, Terrytown, NY
5. Hennepin County Medical Center, Minneapolis, MN
6. St. Lukes Medical Center, Houston, TX
7. Emory University, Atlanta, GA
8. Louisville Sleep Diagnostics, Louisville, KY
9. Medcath, Charlotte, NC
10. Naval Regional Medical Center, San Diego, CA

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**investor@compumedics.com.au**

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Compumedics Limited 30-40 Flockhart Street, Abbotsford, Victoria, 3067 Australia  
Phone: +61 3 8420 7300 Fax: +61 3 8420 7399 FreeCall: 1800 651 751

