

Compumedics Ltd

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Compumedics Ltd's David Burton talks profitable revenue growth in Proactive Q&A Sessions™

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Compumedics Ltd's David Burton talks revenue in Proactive Q&A Sessions™



Compumedics Ltd's David Burton, founder, chairman and CEO, exclusively joins Proactive Q&A Sessions™ in a four-part series.

First the focus is on: Revenue Growth & Peer Valuation; Revenue Roadmap; and Product Integration Growth Platform.

[Compumedics Ltd's \(ASX:CMP\)](#) David Burton, founder, chairman and CEO, will exclusively join Proactive Q&A Sessions™ in a four-part interview series.

Compumedics is an innovative developer and manufacturer of medical devices for sleep, brain and ultrasonic blood-flow monitoring applications.

Today's interview will focus: Revenue Growth & Peer Valuation; Revenue Roadmap; and Product Integration Growth Platform.

Coming up:

- 29th June: Next Generation Growth; Core and Step-out.
- 6th July: Customer Engagement, Acquisition and Retention Strategy.
- 13th July: China, Asia, and Beyond.

PROACTIVE INVESTORS: Welcome David.

Compumedics has forecast FY16 revenues of \$36 million to \$38 million, or a range of 7-12% growth over FY15. Will the forecast range be achieved?

David Burton: Compumedics will achieve revenues within the forecast range for FY2016.

Significant shipments are still leaving the company's various facilities around the world over the next week, so where within the forecast range depends on achieving those final deliveries and shipments through to June 30.

Importantly the company is experiencing a strong finish in terms of new sales orders taken over the last months of

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FY16, as a result of growth and renewal of sales resources in our key markets around the world in accordance with our earlier indications.

Additionally the company has continued to make sound progress with its transition of key manufacturing processes to third parties.

This will contribute to improved margins and earnings, including EBITDA, which will be within the forecast range.

The company has indicated EBITDA will be between \$4.5 million and \$5.5 million for FY16, up from \$4.1 million in FY15.

This is important as EBITDA turned positive in FY13 and has continued to grow since then.

The company remains committed to improving margins further in FY17 through the finalisation of the manufacturing transition process and importantly the continued rollout of the company's new low cost sleep and neurology product platform.

Compumedics has commenced initial shipments of these new devices during late June, as part of its FY16 results.

On a peer scale, how does this revenue growth range compare to other medical device companies in Australia, and internationally?

David Burton: Compumedics stands out amongst its listed peers in Australia, in terms of a value investment proposition, based on the growth prospects of the company's core sleep and neurological and ultrasonic blood flow diagnostics businesses.

From a substantive revenue base (circa \$37 million), relative to our peers, the company is expecting revenues to grow at around the 10% pa over the coming years.

More importantly the company will continue to generate earnings and earnings growth from those revenues, with EBITDA anticipated to grow to 15% or more of revenues over the coming years.

This, without wanting to be biased or disparative, is in the main superior to any peer entities listed on the ASX, such as Medical Products Development, Promedicus Impedimed or [SomnoMed](#) to name a few, all of which have substantially higher PE multipliers and market capitalisations than Compumedics.

When you consider the further up-side offered by Compumedics through its already announced next generation growth opportunities with MEG within the company's neurology business and Somfit, a consumer sleep monitoring application, the disconnect on market valuation appears to present an extraordinary opportunity moving forward.

Can you outline the revenue roadmap, by product and geographic distribution, and the target growth areas in the short to medium term?

David Burton: The company has three core businesses each currently generating revenues and earnings.

The Neurological diagnostics business including brain analysis is about 33% of revenues.

The sleep diagnostic business is about 28% of revenues and the brain blood flow business is about 21% of revenues.

In addition the company generates about 17% of revenues from supplies and technical services that are annuity in nature.

Also within the revenue splits for the main business areas are software up-grades which amount to about 7% of those revenues and are also annuity in nature.

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Geographically these revenues are generated from the U.S. and Asia in about equal parts at 34% each and then Europe and Australia broadly in equal parts also at 16% each.

The company is the market leader in Australia across sleep and neurology, with market shares of about 75% each respectively.

In the U.S. Compumedics holds 3rd market share position, with a great opportunity to grow that further with the introduction of the company's new suite of lower cost sleep and neurological products to compliment the company's existing product range.

These new low cost devices will enable Compumedics to participate in the entire sleep and neurological diagnostic markets in the US, as opposed to the top 30% or so of the market, which has traditionally been where the company has focused.

Also the company has a great opportunity to expand further in China, where Compumedics has been selling product through its distribution partners for more than 15 years, establishing itself as the number 1 supplier to premier hospital and university sites across China.

As a result, the China market has delivered significant profitable revenue growth to the company over the last 3 or 4 years as the burgeoning China middle class continues to grow and demand superior medical services.

These geographic areas, along with Germany, the Middle East, Latin America and India offer continued organic growth to the company in the years ahead.

How will Compumedics combat new entrants or existing players targeting market share in any of these areas?

David Burton: Compumedics started in 1987 as the first medical devices manufacturer and supplier for sleep diagnostics in the Asia Pacific region and we have since gone on to become the gold standard in this patient monitoring space.

We have maintained our position in the highly innovative sleep market for more than 25 years now because we have never stopped advancing our technology and products, reflected in our strong investment in R&D and high barriers of market entry, established over many years.

We have trusted analytics to measure accurately sleep, respiratory and brain analysis and we have regulatory approvals in place for all our products.

We have extended this key experience into neurology and trans-cranial Doppler through the acquisitions of Neuroscan, in America, in 2002 and DWL in Germany in 2004.

Both these acquisitions have broadened the range of products Compumedics sells into neuro diagnostics, which includes long-term monitoring for epilepsy and other neurological disorders.

Importantly we have recently announced an opportunity to expand the business into the much larger MEG imaging market.

This is a watershed moment transitioning the company from mainly selling a \$30,000 software packages to \$4 million to \$6 million world leading brain functional MEG systems.

In transcranial Doppler or TCD for short we monitor brain blood flow through the brain using ultrasound as a means for assessing vascular swelling, blockages and even non-invasive intercranial blood pressure measures.

This technology can also be used for traumatic brain injury (TBI) and the company is focused on expanding this business advancing this technology over the coming years with unique patents and technology.

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The company has an extensive patent portfolio that protects all the key intellectual property developed and owned by the company.

Moving to the core product business, how are Compumedics products currently integrated into the health system, and what relationships does the company need to continue to build to increase volume?

David Burton: Compumedics core suite of products is predominantly used in clinical settings.

That is, hospitals, medical facilities, private practices or via medical service providers.

Our research equipment is also sold into universities globally.

As such it is important our sales reps and distributors have strong relationships with all the key decision makers at these facilities.

With over 20,000 sleep and neurology monitoring systems having been installed worldwide, including centres of excellence such as Stanford, Oxford, Tokyo, Peking, Mayo, University Hospitals, Compumedics has very strong links, built up over many years, with key opinion leaders and decision makers in each of the markets it sells into.

Through these relationships and the company's demonstrated commitment to developing new innovative technology and building our sales resources globally we are well positioned to continue to build and grow revenues across our various product offerings.

What next generation products is Compumedics currently developing, what will be the target market and when will they be available for commercialisation?

David Burton: The company is at a very exciting juncture in its evolution at the moment and I would expect the company will continue with its focus on growing its existing core business.

At the same time we expect our recently announced deal with KRISS and its MEG technology that will see our initial sales booked to account by this time next year, with an extraordinary positive impact on our business model.

A growing pipeline of 10 potential sales demonstrates a strong kick-off in only about 30 days since commercial activation.

I would also expect our eHealth Cloud-based platform for professionals to be contributing to revenues and earnings, with \$10 million in contracts thus far.

Additionally, our new consumer sleep device Somfit is gaining strong traction with mobile wearable consumer expert leaders so we expect this product to be hitting the market next year.

So quite a lot of hard work in front of the company but quite a lot of opportunity at the same time in the existing business as well as our identified next generation growth platforms.

PROACTIVE INVESTORS: Thank-you David.

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