



ASX / MEDIA RELEASE
Melbourne Australia
1st March 2013

Compumedics Limited
Business Update: Appendix 4D Release
6-months to 31 December 2012

Current Performance Highlights:

- New working capital facilities settled with BIBBY Financial Services Australia during February 2013. Other third-party loans of \$0.35m secured and further \$0.25m equity placement imminent with long-term China based distributor, Beijing Bestmed. Further third party funding being sought to clear current backlog of \$7.2m in sales orders in current financial year.
- NPAT and EBITDA both impacted in current period by delayed shipments but significant improvement over last six months of FY2012. NPAT at \$(0.8)m compared to \$(3.0)m in second half of FY2012. EBITDA at \$0.2m compared to \$(1.0)m as margin improvement projects and other cost reduction and turn-around initiatives gain momentum.
- Sales orders shipped down 11% over prior half-year to \$13.1m due to working capital constraints which are being rectified in current period.
- Record sales orders on-hand of \$6.7m at 31st December 2012 as a result of delayed shipments. Current sales orders on-hand of \$7.2m, despite on-going shipments in January and February.
- Operating cash of \$0.4m, down from \$0.7m in the prior year, and bank debt reduced from \$2.3m at 31 Dec to \$1.4m at end of February 2013.
- Australia, Asia, Germany and the Middle East all showed sales order growth with sales orders taken, at 11%, 41%, 116% and 620% respectively, over the prior year, offset by declines in US (due to delayed orders being received), Japan and Europe.

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Business Outlook:

- The Company's articulated expansion strategy, focused on a bigger footprint in sleep diagnostics, expansion into neuro-monitoring and Long-Term EEG Monitoring (LTEM) market and entry into sleep-treatment, remains firmly on track.
- Further, with working capital constraints being resolved, the business will clear the current record sales orders on-hand and continue to build sales growth and positive earnings momentum through the second half of FY2013 and beyond.

Leading Australia-based medical device company, Compumedics Limited (ASX: CMP), is pleased to announce improved earnings performance in the half-year to 31 December 2012 compared to the six months to 30 June 2012, despite only recently resolving the working capital constraints the business has been subject to for most of the last 12 months. NPAT at a \$(0.8)m loss was a significant improvement on the \$(3.0m) [including \$0.8m deferred tax asset write-off] incurred in the second half of FY2012. Importantly, EBITDA was positive \$0.2m for the six months to 31 December 2012, compared to a loss of \$(1.0)m in the second half of FY2012. The turnaround in profitability, despite sales being lower, reflects the on-going initiatives being undertaken in the business to restore margins, in a persistently high Australian dollar exchange-rate environment. The business is focussed on all costs of the business and has recently implemented a head count reduction in the US to ensure that business can operate profitably.

The Company is also pleased to advise sales orders flow has remained robust, despite the longer lead-times for delivery which have been impacted by the working capital constraints that are now in the process of being rectified. The business was holding \$6.7m of sales orders on-hand at the 31 December 2012 and that has increased to \$7.2m as of the end of February 2013 despite on-going shipments in January and February.

The following table highlights the key financial performance measures on this basis.

	H1 FY13	H2 FY12	H1 FY12
Revenues	\$13.2m	\$13.1m	\$14.8m
EBITDA	\$0.2m	\$(1.0)m	\$0.1m
NPAT	\$(0.8)m	\$(3.0)m	\$0.2m

Highlights and Achievements for Compumedics for the half-year ended 31 December 2012:

- EBITDA was positive \$0.2m, despite the inability to ship and invoice all the sales orders received. This compares to a loss of \$(1.0)m for H2 FY2012 and \$0.1m at H1 FY2012.
- Operating cash flow was positive at \$0.4m for H1 FY2013, compared to \$0.7m for both H1 FY2012 and H2 FY2012.

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- Bank debt was \$2.3m at 31 December 2012 but has since fallen to \$1.4m at the end of February 2013.
- The Company has instigated several margin improvement plans including manufacturing component substitution to Asia (approx. \$0.4m in annual savings) and will soon implement other manufacturing initiatives expected to save an additional \$0.5m on an annually.
- The Company has established a stronger relationship with Beijing Bestmed, its long-time distributor in China to further develop the Chinese market for both sleep and neurology diagnostic products. This stronger relationship has resulted in Beijing Bestmed providing third party funding (\$250k) to the business as well as participating in an imminent equity placement (\$250k), subject to final permissions by the relevant Chinese regulators.
- Sales orders taken in Asia were 41% higher than the prior half-year, with continuing strong growth out of China and Taiwan. Sales orders taken were also higher in Australia (up 11%), Germany (up 116%), Middle East (up 620%) but offset by the US (down 38% due to some anticipated orders being delayed) and Europe (excluding Germany) (down 57%)
- As a consequence, the Company had record sales orders on-hand at 31st December 2012 of \$6.7m and this has increased to \$7.2m at the time of releasing this up-date.

Key Growth Opportunities

The Company believes current key growth opportunities derive from the following primary initiatives:

1. Continuing the current two to three-fold expansion of the Company's core sleep and neuro medical diagnostic device sales focus in the Company's key US and European markets
2. Continuing Compumedics' expansion into the global Long-Term EEG Monitoring (LTEM) market with its new innovative LTEM device, Neuvo®. Having secured initial sales of the device in the critical US market the Company will continue to expand its market penetration in this and other major geographic markets
3. The commercialisation of the sleep treatment device.

During the first half of 2013 financial year the Company consolidated its expansion of Compumedics' US-based direct sales team. This has involved expanding the existing sales team in the US to ensure Compumedics has a footprint over all major markets within the US. The Company is also strengthening its Germany-based sales team. In addition the Company has entered a new distribution agreement with Beijing Bestmed, its long-term distributor for China, which includes Beijing Bestmed taking an equity position in the business, as part of a developing a stronger presence to take advantage of this significant market there, over the foreseeable future.

As noted, Compumedics has entered the LTEM market, a new and incremental market for Compumedics, with the launch of its innovative LTEM product, Neuvo® about one year ago. This is taking Compumedics into a pre-existing, but new market for the Company, which has estimated current annual sales of about USD200m in the US and globally approximately USD400m. Compumedics is well positioned to capture a 5% share of this global market over the next few years. Compumedics has achieved approximately \$4m in annual incremental revenues from this market over the last two years and will look to expand this through to the initial target of a 5% global market share.

Compumedics has the most sophisticated and advanced range of portable sleep-monitoring systems of any of the companies competing in these markets. The Company has been recognised as the leader in this field since winning the contract to supply the world's largest sleep study of its kind with portable systems: the Sleep Heart Health Study (SHHS) coordinated by the US National Institute's of Health. The SHHS has completed in the order of 20,000 sleep studies using Compumedics' portable monitoring equipment. Compumedics has been in the process of reinvigorating its US HST business and expects some announcements relating to these developments in the near future. The Company has a consistent track record of winning technological awards for its new products.

With this significant technical experience Compumedics expects to commence selling commercial quantities of its innovative sleep-treatment device SomniLink® SPAP® during calendar 2013 and will up-date the market as this activities crystallise.

Financial Outlook

Compumedics expects the identified key growth opportunities to deliver an increase in revenues and earnings in the current financial year. However, given the on-going uncertainty pervading the economic conditions of its key trading markets, the Company is not issuing specific financial guidance at this time. Compumedics does however expect, should the remaining third party funding initiatives be successful in March 2013, to return to profitability in the current financial year.

Compumedics expects growth beyond the current financial year to result from a combination of:

- organic growth from the core businesses and the key growth opportunities identified,
- the expansion of the business into sleep-treatment markets, and
- opportunistic mergers, acquisitions, or alliances that are identified as being complementary to the Company's existing product range and incremental to the financial performance of the Company.

Strategically, the Company continues to review all business development options available to it to fully unlock the commercial potential within the range of technologies and products the Company currently has or is developing.

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About Compumedics

Compumedics Limited was founded in **1987** by current Chairman/CEO Dr. David Burton and today is a global leader in the design and manufacture of diagnostic technologies for sleep disorders, neurophysiology and cardiology. In **1987** Compumedics established Asia Pacific's first fully computerized sleep laboratory. Compumedics holds 80% share of the Australian sleep-diagnostic market, and has a major and rapidly growing presence in the US, European and Asian marketplaces for its sleep, neurological, and Doppler blood-flow diagnostic monitoring devices. In **1995** the company was selected to supply equipment to the US Sleep Heart Health Study, the world's largest sleep study of its kind, with over 8,000 participants scheduled by 2008. With headquarters in Melbourne, Australia and offices in the United States and Europe, its products are distributed in over 50 countries. In **1998** Compumedics was awarded the overall Australian Exporter of the Year. In **2000** Compumedics was listed on the Australian Stock Exchange. In **2002**, Compumedics acquired US-based **Neuroscan** - the world's leading supplier of instruments for brain research. In the US - the world's largest medical device market - Neuroscan holds around 90% of the market for brain-research products. In **2003** Compumedics was awarded the Frost & Sullivan Award for Market Expansion Strategy. In **2004**, Compumedics acquired Germany-based **DWL Elektronische GmbH**, enabling Compumedics to expand its global operations into the neurovascular and cardio-vascular diagnostic fields. In **2006**, Compumedics was awarded the Frost and Sullivan Technology Leadership award for its innovative Somte® recorder product. In **2007**, Compumedics and its Chairman were inducted into the Victorian Manufacturing Hall of Fame. In **2008** the DWL division received a top 100 German Innovation award. With 20,000 systems installed globally across the finest hospital, universities and clinics Compumedics sales have grown more than 4-fold from \$9 million (1999) to \$39 million (2008). In **2009** Compumedics was awarded a design award for its GRAEL® PSG/EEG premium laboratory-based product. In **2010** Compumedics was recognized by the Australian Innovation Government and Industry body as one of Australia's Top 100 Health Innovators through its world leading devices for sleep diagnostics. In **2011** Compumedics was selected as one of the 25 innovative Australian companies by the Australian Governments Department of Innovation, Industry, Science and Research (Industry). For further background please visit: www.compumedics.com <http://www.compumedics.com>

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