

COMPUMEDICS LTD

HOLD

CMP – Downgrades FY17 Guidance

Health Care Equipment & Services / Health Care Equipment

7 July 2017

COMPANY UPDATE

Ticker	CMP
Stock Price	\$0.560
Target Price	\$0.530
Forecast Capital Return	(5.4%)
Forecast Dividend Yield	0.0%
Estimated Total Return - 12 Mth Forward	(5.4%)

Company market data

Market Cap.	\$94.5m
Free Float (%)	26.6
Enterprise Value	\$89.8m
52 Week Range	\$0.33 - \$0.90
Shares Out.	168.8m
Avg. Daily Value	\$0.1m

Estimates changes	2016a	2017e	2018e	2019e
Core NPAT - <i>new</i>	2.5	0.8	3.6	4.8
Core EPS dil. (€) - <i>new</i>	1.5	0.5	2.2	2.9
DPS (€) - <i>new</i>	0.0	0.0	0.0	0.0

All figures are in AUD unless otherwise specified.

Share price performance

Compumedics Ltd vs. AS51 (rebased index)



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EVENT

- CMP downgrades FY17 guidance due to slower than anticipated sales in the U.S.

KEY TAKE-AWAYS

- **FY17 guidance downgrade.** Now guiding to sales \$33m vs \$40m midpoint previously (-18% miss); underlying EBITDA now \$2.1-3.6m vs \$4.5-7.5m prior (-53% miss at midpoint). Management expect sales to be shifted into FY18.
- **U.S. drives the downgrade.** Approximately \$5m of sales, primarily in the U.S, were due to be executed in June but have been delayed to early FY18. EBITDA was impacted by FY17 costs already expensed in anticipation of these sales. CMP's has also booked \$1.6m restructuring costs, primarily related to U.S. management and sales team changes.
- **MEG pipeline.** CMP has stated they have around 40 global opportunities for their MEG machine. Management has identified 4 opportunities in FY18. We assume 1 MEG machine is delivered in FY18 and 2 MEG machines delivered annually thereafter from FY19 onwards.

INVESTMENT VIEW

- **Downgrade to HOLD rating with a 0.53/share price target.** Post today's share price reaction, CMP's share price is still +47% over the past 4 weeks.
- **Disappointing.** The substantial miss in FY17 guidance is disappointing and demonstrates the lumpiness of the business model, with the bulk of group sales being capital equipment (~85%). We await evidence of improved U.S sales in 1H18.
- **MEG pipeline.** The first MEG sale announced in June to the Barrow Neurological Institute in the U.S was highly positive. We remain conservative with our MEG forecast sales. We assume only 1 MEG sale in FY18 (Barrow), and two annual sales thereafter from FY19 and beyond.

Y/E Apr 30	2016a	2017e	2018e	2019e
EBITDA	5.0	2.8	5.6	7.4
EV/EBITDA	18.0x	32.4x	16.1x	12.1x
Core NPAT	2.5	0.8	3.6	4.8
Core EPS (Diluted) (€)	1.5	0.5	2.2	2.9
P/E	36.9x	115.7x	25.9x	19.6x
EPS growth	110.2%	(68.1%)	346.4%	32.5%
DPS (€)	0.0	0.0	0.0	0.0
Yield	0.0%	0.0%	0.0%	0.0%
DPS growth	-	-	-	-
Dividend Payout Ratio	0.0%	0.0%	0.0%	0.0%

All figures are in AUD.

COMPANY OVERVIEW

- CMP is a medical software and hardware player, providing diagnostics for sleep and neurological disorders. Core customers are hospitals, sleep clinics and universities.
- Strong market position with top 3 positions across most product lines in Australia, China and the United States. Established in 1987 by Managing Director and founder David Burton, listing on the ASX in Dec. 2000 at \$0.50 per share.

INVESTMENT THESIS

1. **Solid market position and brand name.** Top 3 market position in Australia, China and the U.S, with +20,000 systems installed worldwide. Customers include The Mayo Clinic, The University of Oxford, Royal Prince Alfred Hospital, Sydney and The Royal Children's Hospital, Melbourne.
2. **Sleep & neurological disorders increasing.** Global rates of sleep and neurological disorders are increasing, driven in part by the aging of the population. The global neurology devices market was worth US\$5.0bn in 2013 and is forecast to grow at 15.4% CAGR from 2015-2019 to almost US\$13.6bn. Management estimate the clinical neurology diagnostics market is worth US\$1.3bn/year, with CMP's market share being <1% at present.
3. **New products could see earnings step change.** New high-end MEG machines with a sale price around US\$3.0-5.0m per machine; low cost of sale ~\$US1.0m, may see a material US\$2.0-4.0m uplift in earnings, noting EBITDA was A\$5.0m in FY16. CMP is also working on the release of low-mid range products to widen the addressable market and a cloud based e-health platform.
4. **Cost efficiency opportunities.** Operational improvements and selective outsourcing of production to continue in FY17/18. Cost savings initiatives include logistics improvements; potential sub-leasing of space, etc.

KEY RISKS

1. **Contract Loss.** Termination or cancellation of existing customer contracts may impact CMP's future financial performance.
2. **Slower MEG sales than forecast.** Slower than forecast MEG sales could impact CMP's future financial performance.
3. **Competition.** Increased competition through pricing pressure, marketing or product innovation may impact CMP's future financial performance.
4. **Product Issues.** Technical defects/errors in CMP's software or hardware may lead to warranty claims which may impact CMP's future financial performance as well as the ability to generate new future business.
5. **Regulatory Change.** Changes to government policies, laws or regulations may affect healthcare funding, favour competitor offerings or require re-engineering of products which may impact CMP's financial performance.
6. **Loss of Key Personnel.** Loss of senior management or key operational personnel may impact CMP's future financial performance.
7. **Intellectual Property (IP).** Existing legal and technical defence actions may not provide sufficient IP protection as operations grow and diversify geographically. Competitors may gain access to proprietary data and technology which may impact CMP's future financial performance.
8. **Exchange Rates.** Exposure to the risk of fluctuations in foreign currencies may impact the translation of account balance.

Compumedics Ltd (CMP)

Market Cap: \$95m

Last Price: \$0.560

Target Price: \$0.530

Hold

Profit and Loss (\$m)	2015a	2016a	2017e	2018e	2019e
Revenue	34.3	38.3	33.2	39.1	45.8
<i>Growth</i>	7.9%	11.7%	(13.4%)	17.9%	17.1%
EBITDA	4.1	5.0	2.8	5.6	7.4
<i>Growth</i>	35.8%	22.0%	(44.3%)	101.1%	33.3%
Dep'n & Amort	(1.4)	(1.8)	(1.7)	(1.7)	(1.8)
EBIT	2.7	3.2	1.1	3.9	5.6
<i>Growth</i>	69.7%	19.5%	(67.1%)	270.7%	43.8%
Net Interest Expense	(0.7)	(0.4)	(0.3)	(0.3)	(0.3)
Profit Before Tax	2.0	2.8	0.8	3.6	5.4
Tax	0.0	0.5	0.0	0.0	(0.5)
<i>Tax Rate (%)</i>	2.0%	(16.6%)	(5.0%)	0.0%	10.0%
Minorities	0.0	0.0	0.0	0.0	0.0
NPAT (Underlying)	1.2	2.5	0.8	3.6	4.8
<i>Growth</i>	14,937.5%	111.5%	(67.9%)	346.4%	32.5%
One-Off Items	(0.8)	(0.7)	1.1	0.0	0.0
NPAT (Reported)	2.0	3.3	(0.3)	3.6	4.8
EPS (Underlying) (¢)	0.7	1.5	0.5	2.2	2.9
<i>Growth</i>	14,937.5%	110.2%	(68.1%)	346.4%	32.5%

Balance Sheet (\$m)	2015a	2016a	2017e	2018e	2019e
Cash	2.2	3.1	2.6	4.1	6.8
Inventory	5.7	6.5	6.3	7.4	7.8
Current Receivables	10.3	12.8	10.9	12.9	16.0
PPE	0.8	0.8	0.8	0.8	0.9
Intangibles	2.7	2.4	2.2	2.2	2.4
Other	0.0	0.5	0.5	0.5	0.5
Total Assets	21.7	26.1	23.3	27.9	34.4
Current Payables	4.2	4.1	3.3	3.9	5.0
ST Debt	2.0	2.6	2.6	2.6	2.6
LT Debt	0.0	0.0	0.0	0.0	0.0
Provisions	2.6	2.8	2.3	2.7	3.2
Other	1.6	2.1	2.1	2.1	2.1
Total Liabilities	10.4	11.5	10.3	11.3	12.9
Net Assets	11.3	14.6	13.0	16.7	21.5
Equity & Reserves	30.7	30.8	29.5	29.5	29.5
Retained Profits	(19.4)	(16.2)	(16.5)	(12.8)	(8.0)
Shareholders' Equity	11.3	14.6	13.0	16.7	21.5
Minorities	0.0	0.0	0.0	0.0	0.0
Total Equity	11.3	14.6	13.0	16.7	21.5

Cashflow (\$m)	2015a	2016a	2017e	2018e	2019e
EBITDA	4.1	5.0	2.8	5.6	7.4
Net Interest	(0.7)	(0.4)	(0.3)	(0.3)	(0.3)
Tax	0.0	0.0	0.0	0.0	(0.5)
Δ in Working Capital	(1.5)	(3.4)	1.3	(2.5)	(2.3)
Other	0.3	1.1	(0.4)	0.4	0.5
Operating Cash Flow	2.2	2.2	3.4	3.2	4.8
<i>Growth</i>	221.0%	1.4%	50.5%	(3.7%)	46.9%
Capex	(0.4)	(0.3)	(0.2)	(0.4)	(0.5)
Acquisitions	0.0	0.0	0.0	0.0	0.0
Divestments	0.0	0.0	0.0	0.0	0.0
Other	(0.9)	(1.2)	(1.2)	(1.4)	(1.6)
Investing Cash Flow	(1.3)	(1.5)	(1.4)	(1.8)	(2.1)
Equity Raised	0.0	0.2	0.0	0.0	0.0
Dividends Paid	0.0	0.0	0.0	0.0	0.0
Net Borrowings	0.5	(0.3)	(2.0)	(1.5)	(2.7)
Other	0.0	0.0	0.0	0.0	0.0
Financing Cash Flow	0.5	(0.2)	(2.0)	(1.5)	(2.7)
FX / Non Cash Items	0.2	0.1	0.0	0.0	0.0
Change in Cash	1.5	0.5	0.0	0.0	0.0
Free Cash Flow	0.9	0.7	2.0	1.5	2.7

Valuation Summary	
Current Mkt Capitalisation	94.5
Shares on Issue	168.8
Last Price	0.560
12 Mth Target Price	0.530
Total Estimated 12 Mth Return	(5.4%)
12 Mth Fwd Capital Return	(5.4%)
12 Mth Fwd Dividend Yield	0.0%

Valuation Ratios	2015a	2016a	2017e	2018e	2019e
EPS (Underlying) (¢)	0.7	1.5	0.5	2.2	2.9
<i>Growth</i>	14,937.5%	110.2%	(68.1%)	346.4%	32.5%
P/E (x)	77.7x	36.9x	115.7x	25.9x	19.6x
Small Industrials (ex Fin's)	0.0x	0.0x	0.0x	0.0x	0.0x
Premium / (Discount)	nm	nm	nm	nm	nm
EV/EBITDA (x)	22.0x	18.0x	32.4x	16.1x	12.1x
Small Industrials (ex Fin's)	0.0x	0.0x	0.0x	0.0x	0.0x
Premium / (Discount)	nm	nm	nm	nm	nm
DPS (¢)	0.0	0.0	0.0	0.0	0.0
<i>Growth</i>	-	-	-	-	-
Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Franking (%)	0.0%	0.0%	0.0%	0.0%	0.0%
NTA	8.6	12.2	10.9	14.5	19.1
NTA/Share (\$)	0.05	0.07	0.06	0.09	0.11

Performance Ratios	2015a	2016a	2017e	2018e	2019e
ROA	9.6%	13.7%	3.3%	14.2%	15.5%
ROE	19.3%	25.3%	5.9%	24.6%	25.3%
ROIC	24.9%	29.8%	8.2%	27.9%	31.3%
Net Debt (Cash) (\$m)	(0.2)	(0.5)	(0.1)	(1.5)	(4.2)
Net Debt/EBITDA (x)	0.0x	0.0x	0.0x	0.0x	0.0x
ND/(ND + Equity) (%)	(2.1%)	(3.5%)	(0.4%)	(10.1%)	(24.5%)
Interest Cover (x)	4.0x	7.9x	2.9x	10.6x	13.2x
Working Capital	7.8	10.7	9.9	11.9	13.8
Working Capital/Sales (%)	22.7%	28.0%	29.8%	30.6%	30.2%

Cash Flow Metrics	2015a	2016a	2017e	2018e	2019e
FCF/Share (\$)	0.01	0.00	0.01	0.01	0.02
Price/FCPS (x)	101.4x	135.6x	48.4x	63.9x	35.0x
Free Cash Flow Yield (%)	1.0%	0.7%	2.1%	1.6%	2.9%
Gross Cash Conversion	70.8%	53.9%	129.8%	62.9%	74.8%
Capex/Sales (%)	1.1%	0.8%	0.7%	1.0%	1.0%
Capex/Depreciation (x)	0.3x	0.2x	0.1x	0.2x	0.3x

Margins	2015a	2016a	2017e	2018e	2019e
EBITDA	11.9%	13.0%	8.4%	14.3%	16.2%
EBIT	7.8%	8.4%	3.2%	10.0%	12.3%
NPAT	3.5%	6.6%	2.5%	9.3%	10.6%

Valuation Methodology	
WACC (%)	11.0%
Discounted Cash Flow Valuation	0.475
Sum-of-the-Parts Valuation	0.315
Average Valuation	0.475
12 Mth Target Price	0.530

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RATINGS DISTRIBUTION TABLE
Distribution of Ratings as at 7 July 2017

SELL	HOLD	BUY
1.6%	31.1%	67.2%

Rating and Price Target History: Compumedics Ltd (CMP) as of 7/07/2017


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