

# COMPUMEDICS LTD

**HOLD**

## 1H18 Result; Impacted by timing

Health Care Equipment &amp; Services / Health Care Equipment

27 February 2018

### COMPANY UPDATE

Ticker	CMP
Stock Price	\$0.390
Target Price	\$0.450
Forecast Capital Return	15.4%
Forecast Dividend Yield	0.0%
Estimated Total Return - 12 Mth Forward	15.4%

#### Company market data

Market Cap.	\$69.1m
Free Float (%)	26.1
Enterprise Value	\$67.0m
52 Week Range	\$0.31 - \$0.70
Shares Out.	177.2m
Avg. Daily Value	\$0.0m

Estimates changes	2017a	2018e	2019e	2020e
Core NPAT - <i>old</i>	0.8	3.6	4.8	5.0
Core NPAT - <i>new</i>	0.8	3.9	3.6	4.9
% Change	0.0	5.6	(25.2)	(2.3)
Core EPS dil. (€) - <i>old</i>	0.5	2.2	2.9	2.9
Core EPS dil. (€) - <i>new</i>	0.5	2.2	2.0	2.7
% Change	0	0.7	(28.7)	(6.9)
DPS (€) - <i>old</i>	0.0	0.0	0.0	0.0
DPS (€) - <i>new</i>	0.0	0.0	0.0	0.0
% Change	-	-	-	-

All figures are in AUD unless otherwise specified.

#### Share price performance

Compumedics Ltd vs. AS51 (rebased index)



#### Analyst

**Keiran Hoare**

+61 2 8288 5423

[keiran.hoare@moelisaustralia.com](mailto:keiran.hoare@moelisaustralia.com)

### EVENT

Compumedics (CMP) 1H18 results.

### KEY TAKEAWAYS

- **Results fell short of expectations, but due to timing issue.** 1H18 sales of \$16.1m were -7% below our estimate of \$17.2m. The miss was predominately driven by timing, with ~\$2.5m worth of orders from China received late in the half. Costs incurred by the late 1H18 sales orders also impacted EBITDA of \$1.1m, -32% on our estimate of \$1.6m.
- **Strong segment sales in the US and Europe.** The US and Europe segment performed strongly in the half. Sales in these regions grew +19% and +63% respectively on pcp and were 8% and 54% ahead of our estimates. This was driven by changes to the product composition, with a greater focus on volumes.
- **Increased GP margins with shift in product mix.** Over the past 12 months CMP has shifted its product mix, deciding to focus on its lower priced Grael devices. This has resulted in gross profit margins expanding to 58%, up from 54% in 1H17.
- **Full year guidance maintained.**
  - ✓ Sales: \$40m - \$42m (Moelis \$39.3m)
  - ✓ EBITDA: \$5.5m - \$6.5m (Moelis \$5.3m)
  - ✓ NPAT: \$4.0m - \$5.0m (Moelis \$3.9m)
- **MEG production for BNI on schedule.** Production of the new MEG system is on schedule. The system is on track to be installed at the Barrow Neurological Institute (US) in 2H18.

### INVESTMENT VIEW

We view the company's reaffirmation of FY18 guidance as a positive; however we remain cautious given the lumpiness of sales and previous misses to guidance (i.e. FY17).

We make slight adjustments to segmental results in FY18, for little impact on group earnings, our numbers sit at the bottom end of company guidance. We downgrade our FY19 EPS by 29%, assuming only 1 MEG sale is made, instead of 2, given the lengthy sales cycle and our expectations that a follow on order will not occur until the end of CY18. We do note that our future assumption of 2 MEG sales per year beyond FY19 is conservative and may provide upside to our numbers if additional systems were to be sold.

**We maintain our HOLD rating and reduce our 12 month target price to \$0.45/share (previously \$0.53/share) representing +15% total return.**

Y/E Apr 30	2017a	2018e	2019e	2020e
EBITDA	1.7	5.3	5.3	7.3
EV/EBITDA	39.0x	12.6x	12.5x	9.2x
Core NPAT	(0.5)	3.9	3.6	4.9
Core EPS (Diluted) (€)	(0.3)	2.2	2.0	2.7
P/E	nm	17.9x	19.1x	14.2x
EPS growth	(120.8%)	(790.6%)	(6.2%)	34.3%
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.

## RESULT BY NUMBERS

- **Top line result impacted by timing and sluggish sales in APAC.** Revenue missed our estimates, \$16.1m vs Moelis est. \$17.2, predominately impacted by timing and poor APAC sales, down 30% on pcp to \$6.1m. Offsetting this fall were strong performances from Europe +63% on pcp to \$4.3m and the United states +19% on pcp to \$5.7m.
- **GP Margin expansion.** Gross profit margins grew to 58% in the half, this compares to 54% in pcp and was driven by changes to the product mix, with increase sales of new lower cost Graef devices, as well as outsourcing various components of production.
- **EBITDA impacted by ~10% increase in opex.** Administration (+10%), sales and marketing (+18%) impacted EBITDA in the period, -32% below our estimates of \$1.6m.
- Capex spend marginally above estimates at \$1.1m.
- Gross cash conversion and operating cash flows were negative in the half, driven by sales late in the half that currently sit in trade receivables.

**Figure 1: Results Analysis**

P&L	1H18A	1H17A	% Change pcp	1H18A	1H18E	% Change
Sales	16.1	16.2	-1%	16.1	17.2	-7%
EBITDA	1.1	1.2	-7%	1.1	1.6	-32%
<i>EBITDA Margin</i>	6.7%	7.1%	-0.4 ppt	6.7%	9.2%	-2.5 ppt
EBIT	0.8	0.5	73%	0.8	0.7	18%
<i>EBIT Margin</i>	5.2%	3.0%	2.2 ppt	5.2%	4.1%	1.1 ppt
NPAT Underlying	0.6	0.2	184%	0.6	0.7	-8%
EPS Underlying (c)	0.4	0.1	170%	0.4	0.4	-8%
DPS (c)	0.0	0.0	0%	0.0	0.0	0%
Payout	0%	0%	0.0 ppt	0%	0%	0.0 ppt
Franking	0%	0%	0.0 ppt	0%	0%	0.0 ppt
Cash Flow	1H18A	1H17A	% Change pcp	1H18A	1H18E	% Change
OPCF	(0.2)	1.5	-113%	(0.2)	2.8	-107%
Capex	(1.1)	(0.7)	59%	(1.1)	(0.9)	18%
FCF	(1.3)	0.8	-253%	(1.3)	1.9	-165%
Sales - Segment	1H18A	1H17A	% Change pcp	1H18A	1H18E	% Change
USA	5.7	4.8	19%	5.7	5.3	8%
Aus & Asia Pacific - incl.China	6.1	8.7	-30%	6.1	9.2	-34%
Europe	4.3	2.7	63%	4.3	2.8	55%

Source: Company, Moelis Analysis

## GUIDANCE

- **FY18 guidance maintained**, boosted by the sales recognition of the MEG sale to Barrow Neurological Institute (announced June 2017) as well as orders received late in 1H18 that are yet to be shipped and invoiced.
  - ✓ **Sales:** \$40.0m - \$42.0m
  - ✓ **EBITDA:** \$5.5m - \$6.5m
  - ✓ **NPAT:** \$4.0m - \$5.0m

## 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: \$69m

Last Price: \$0.390

Target Price: \$0.450

**Hold**

Y/E Apr 30

Profit and Loss (\$m)	2016a	2017a	2018e	2019e	2020e
<b>Revenue</b>	<b>38.3</b>	<b>34.4</b>	<b>39.3</b>	<b>41.3</b>	<b>46.5</b>
<i>Growth</i>	11.7%	(10.1%)	14.1%	5.3%	12.5%
<b>EBITDA</b>	<b>5.0</b>	<b>1.7</b>	<b>5.3</b>	<b>5.3</b>	<b>7.3</b>
<i>Growth</i>	22.0%	(65.5%)	208.2%	0.9%	36.8%
Dep'n & Amort	(1.8)	(1.4)	(1.4)	(1.5)	(1.6)
<b>EBIT</b>	<b>3.2</b>	<b>0.4</b>	<b>3.9</b>	<b>3.8</b>	<b>5.7</b>
<i>Growth</i>	19.5%	(89.1%)	1,010.6%	(2.0%)	49.0%
Net Interest Expense	(0.4)	(0.3)	0.0	0.0	0.0
<b>Profit Before Tax</b>	<b>2.8</b>	<b>0.0</b>	<b>3.9</b>	<b>3.8</b>	<b>5.7</b>
Tax	0.5	0.2	0.0	(0.2)	(0.9)
<i>Tax Rate (%)</i>	(16.6%)	(523.7%)	0.0%	5.0%	15.0%
Minorities	0.0	0.0	0.0	0.0	0.0
<b>NPAT (Underlying)</b>	<b>2.5</b>	<b>(0.5)</b>	<b>3.9</b>	<b>3.6</b>	<b>4.9</b>
<i>Growth</i>	111.5%	(121.4%)	(807.2%)	(6.2%)	34.3%
One-Off Items	(0.7)	0.0	0.0	0.0	0.0
<b>NPAT (Reported)</b>	<b>3.3</b>	<b>(0.5)</b>	<b>3.9</b>	<b>3.6</b>	<b>4.9</b>
<b>EPS (Underlying) (¢)</b>	<b>1.5</b>	<b>(0.3)</b>	<b>2.2</b>	<b>2.0</b>	<b>2.7</b>
<i>Growth</i>	110.2%	(120.8%)	(790.6%)	(6.2%)	34.3%

Balance Sheet (\$m)	2016a	2017a	2018e	2019e	2020e
Cash	3.1	4.1	5.7	9.0	11.5
Inventory	6.5	7.4	7.4	7.0	7.9
Current Receivables	11.9	13.1	15.7	16.5	18.5
PPE	0.8	0.7	0.8	0.9	1.0
Intangibles	2.4	2.4	2.7	3.0	3.3
Other	1.4	1.4	1.4	1.4	1.4
<b>Total Assets</b>	<b>26.1</b>	<b>29.2</b>	<b>33.8</b>	<b>37.8</b>	<b>43.6</b>
Current Payables	4.1	4.2	4.3	4.5	5.1
ST Debt	2.6	0.7	0.7	0.7	0.7
LT Debt	0.0	0.0	0.0	0.0	0.0
Provisions	2.8	2.7	3.2	3.3	3.7
Other	2.1	1.6	1.6	1.6	1.6
<b>Total Liabilities</b>	<b>11.5</b>	<b>9.2</b>	<b>9.8</b>	<b>10.1</b>	<b>11.1</b>
<b>Net Assets</b>	<b>14.6</b>	<b>20.1</b>	<b>24.0</b>	<b>27.6</b>	<b>32.5</b>
Equity & Reserves	30.8	34.9	35.0	35.0	35.0
Retained Profits	(16.2)	(14.9)	(11.0)	(7.4)	(2.5)
<b>Shareholders' Equity</b>	<b>14.6</b>	<b>20.1</b>	<b>24.0</b>	<b>27.6</b>	<b>32.5</b>
Minorities	0.0	0.0	0.0	0.0	0.0
<b>Total Equity</b>	<b>14.6</b>	<b>20.1</b>	<b>24.0</b>	<b>27.6</b>	<b>32.5</b>

Cashflow (\$m)	2016a	2017a	2018e	2019e	2020e
EBITDA	5.0	1.7	5.3	5.3	7.3
Net Interest	(0.4)	(0.3)	0.0	0.0	0.0
Tax	0.0	0.0	0.0	(0.2)	(0.9)
Δ in Working Capital	(2.5)	(2.0)	(2.4)	(0.2)	(2.3)
Other	0.2	1.6	0.4	0.2	0.4
<b>Operating Cash Flow</b>	<b>2.2</b>	<b>0.9</b>	<b>3.3</b>	<b>5.2</b>	<b>4.6</b>
<i>Growth</i>	1.4%	(61.3%)	277.6%	58.0%	(11.7%)
Capex	(0.3)	(0.1)	(0.4)	(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	(1.2)	(1.1)	(1.4)	(1.4)	(1.6)
<b>Investing Cash Flow</b>	<b>(1.5)</b>	<b>(1.3)</b>	<b>(1.8)</b>	<b>(1.9)</b>	<b>(2.1)</b>
Equity Raised	0.2	4.2	0.0	0.0	0.0
Dividends Paid	0.0	0.0	0.0	0.0	0.0
Net Borrowings	(0.3)	(2.3)	(1.5)	(3.3)	(2.5)
Other	0.0	0.0	0.0	0.0	0.0
<b>Financing Cash Flow</b>	<b>(0.2)</b>	<b>2.0</b>	<b>(1.5)</b>	<b>(3.3)</b>	<b>(2.5)</b>
FX / Non Cash Items	0.1	(0.1)	0.0	0.0	0.0
<b>Change in Cash</b>	<b>0.5</b>	<b>1.5</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Free Cash Flow</b>	<b>0.7</b>	<b>(0.4)</b>	<b>1.5</b>	<b>3.3</b>	<b>2.5</b>

Valuation Summary	
Current Mkt Capitalisation	69.1
Shares on Issue	177.2
Last Price	0.390
<b>12 Mth Target Price</b>	<b>0.450</b>
Total Estimated 12 Mth Return	15.4%
12 Mth Fwd Capital Return	15.4%
12 Mth Fwd Dividend Yield	0.0%

Valuation Ratios	2016a	2017a	2018e	2019e	2020e
<b>EPS (Underlying) (¢)</b>	<b>1.5</b>	<b>(0.3)</b>	<b>2.2</b>	<b>2.0</b>	<b>2.7</b>
<i>Growth</i>	110.2%	(120.8%)	(790.6%)	(6.2%)	34.3%
<b>P/E (x)</b>	<b>25.7x</b>	<b>nm</b>	<b>17.9x</b>	<b>19.1x</b>	<b>14.2x</b>
Small Industrials (ex Fin's)	0.0x	0.0x	0.0x	0.0x	0.0x
Premium / (Discount)	nm	nm	nm	nm	nm
<b>EV/EBITDA (x)</b>	<b>13.5x</b>	<b>39.0x</b>	<b>12.6x</b>	<b>12.5x</b>	<b>9.2x</b>
Small Industrials (ex Fin's)	0.0x	0.0x	0.0x	0.0x	0.0x
Premium / (Discount)	nm	nm	nm	nm	nm
<b>DPS (¢)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<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	12.2	17.6	21.3	24.6	29.2
NTA/Share (\$)	0.07	0.10	0.12	0.14	0.16

Performance Ratios	2016a	2017a	2018e	2019e	2020e
ROA	13.7%	0.9%	12.2%	10.1%	11.9%
ROE	25.3%	1.4%	17.5%	14.0%	16.2%
ROIC	29.8%	14.2%	21.8%	18.9%	23.5%
Net Debt (Cash) (\$m)	(0.5)	(3.4)	(5.0)	(8.3)	(10.8)
Net Debt/EBITDA (x)	0.0x	0.0x	0.0x	0.0x	0.0x
ND/(ND + Equity) (%)	(3.5%)	(20.3%)	(26.3%)	(42.9%)	(49.6%)
Interest Cover (x)	7.9x	1.1x	21.6x	17.0x	21.3x
Working Capital	10.7	13.0	15.0	14.9	16.9
Working Capital/Sales (%)	28.0%	37.6%	38.1%	36.2%	36.3%

Cash Flow Metrics	2016a	2017a	2018e	2019e	2020e
<b>FCF/Share (\$)</b>	<b>0.00</b>	<b>0.00</b>	<b>0.01</b>	<b>0.02</b>	<b>0.01</b>
Price/FCPS (x)	94.5x	nm	46.1x	20.9x	28.0x
Free Cash Flow Yield (%)	1.1%	(0.6%)	2.2%	4.8%	3.6%
Gross Cash Conversion	53.9%	71.2%	62.2%	100.1%	73.5%
Capex/Sales (%)	0.8%	0.4%	1.0%	1.0%	1.0%
Capex/Depreciation (x)	0.2x	0.1x	0.3x	0.3x	0.3x

Margins	2016a	2017a	2018e	2019e	2020e
EBITDA	13.0%	5.0%	13.5%	12.9%	15.7%
EBIT	8.4%	1.0%	9.9%	9.2%	12.2%
NPAT	6.6%	(1.6%)	9.8%	8.7%	10.4%

Valuation Methodology	
WACC (%)	11.7%
Discounted Cash Flow Valuation	0.399
Sum-of-the-Parts Valuation	0.228
Average Valuation	0.399
<b>12 Mth Target Price</b>	<b>0.450</b>

**RESEARCH & SALES RESPONSIBILITIES**
**Equities**

Simon Scott	Head of Equities	+612 8288 5418
Elliot Leahey	Operations Manager	+612 8288 5402
Sarah Sagvand	Desk Assistant	+612 8288 5401
Jacqui Irons	Corporate Broking	+612 8288 5427

**Equities Sales & Trading**

John Garrett	+612 8288 5409
Angus Murnaghan	+612 8288 5411
Ian McKenzie	+612 8288 5404
Bryan Johnson	+612 8288 5412
Andrew Harvey	+612 8288 5428
Sam Clark	+612 8288 5410
Mitchell Hewson - <i>Head of Execution</i>	+612 8288 5417
Aaron Payne - <i>Real Estate</i>	+612 8288 5405

email: [firstname.lastname@moelisaustralia.com](mailto:firstname.lastname@moelisaustralia.com)

**Equities Research**

<b>Real Estate</b>	
Hamish Perks	+612 8288 5419
Edward Day	+612 8288 5424
Ronan Barratt	+612 8288 5426

**Industrials**

Sean Kiriwan	+618 6555 8602
Sarah Mann	+612 8288 5407
Brendon Kelly	+612 8288 5413
Keiran Hoare	+612 8288 5423

**US Distribution Partner - Weeden & Co.**

Matthew McCloghry	+1 646 227 5575
<i>mmccloghry@weedenco.com</i>	

**DISCLOSURE APPENDIX**
**ANALYST CERTIFICATION**

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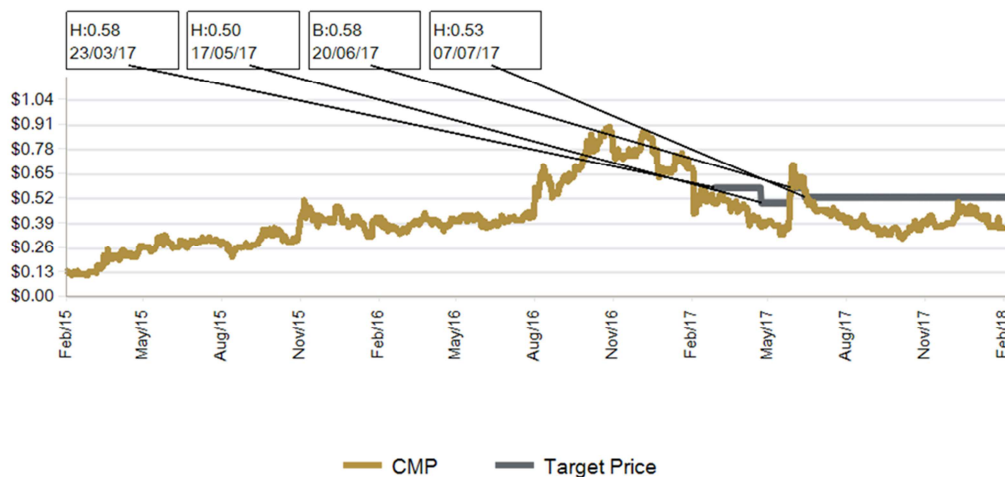
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All companies under coverage are assigned a rating of Buy, Hold or Sell based on the expected 12 month total return estimated by the analyst(s). The total return is a combination of the estimated capital gain or loss, in addition to the estimated 12 month forward dividends or distributions. In relation to all companies that Moelis Australia Securities conducts research coverage on the relevant total return bands that derive the ratings are:

**Buy:** >15% **Hold:** 5% to 15% **Sell:** <5%.

**RATINGS DISTRIBUTION TABLE**
**Distribution of Ratings as at 27 February 2018**

SELL	HOLD	BUY
1.7%	31.0%	65.5%

**Rating and Price Target History: Compumedics Ltd (CMP) as of 26/02/2018**


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