

COMPANY Compumedics | CMP | \$0.39/share | Market Capital \$69m

Date: 27 February 2018

RECOMMENDATION Buy | High Risk | 12 Month Price Target \$0.92/share

EVENT HY Result – Outperforming peers. Step-outs on track

KEY POINTS

- Major turnaround in base diagnostics orders with USA (+49% hoh), Europe (+300% hoh) and strong China.
- CMP has outperformed peers with neuro diagnostic competitor (Natus, BABY.NASDAQ) reporting flat sales in USA, and major MEG supplier (Elekta, EKTAB:STO) not selling a unit for 18 months.
- There is a major leap of faith with FY'18F guidance of EBITDA \$5.0m vs. HY'18A of \$1.1m. CMP is confident with Chinese accounts received over last 6 weeks, and ability to deliver on current orders.
- A significant part of this EBITDA should come from 1st 'MEG' shipment due in 2H18 for Arizona (USA) reference hospital. It is also good to see the e-Health backbone rollout delivering recurring EBITDA.
- We keep our Buy and PT \$0.92/share. The base CMP diagnostics is growing faster and across more regions vs. peers. Step out growth paths with 'MEG' and "SomFit"/e-Health are now more tangible.

FY'18F METRICS PER 17.3x | EV/EBITDA 13.0x | Yield 0.0%

FY'19F METRICS PER 7.8x | EV/EBITDA 5.4x | Yield 0.0%

LINK TO NOTE WITH FINANCIAL SUMMARY [RN_CMP_270218](#)

CMP MANAGEMENT PRESENTING AT PAC PARTNERS

Sydney Office – 12:30pm Tuesday, 20 March, Kyle House - Mezzanine Level, 27-31 Macquarie Place

Melbourne Office – 12:30 pm Wednesday, 21 March, L10, 330 Collins Street

FINANCIAL HIGHLIGHTS

Sales: \$16.1m, -1% on pcp. Sales orders \$18.5m, with \$6.5m sales received and not shipped vs \$3.0m pcp

EBITDA: \$1.1m -7% on pcp. Fixed costs expensed and sales were not recognised.

NPAT: \$0.7m +350% on pcp. Lower depreciation with R&D expensed.

Cash Flow: OCF of -\$0.2m vs \$1.5m pcp. Increase in working capital with orders not shipped.

DPS: 0cps.

RESULT QUALITY AND ANALYSIS

Margin trends: EBITDA margin is down 0.4% to 6.7%, and we estimate 2H of 16% vs. FY17 pcp 7.9%

Base Business – Major turnaround in base diagnostics orders with USA (+49% hoh), Europe (+300% hoh) and strong China. CMP has outperformed peers with neuro diagnostic competitor (Natus, BABY.NASDAQ) reporting flat sales in USA.

MEG* (Magnetoencephalography machine) – The major installed MEG supplier (Elekta, EKTAB:STO) with 100 of 150 global installed has not sold a unit for 18 months. CMP received its MEG order from Barrow Neurological

Institute, Phoenix Arizona on 20 June 2017 and aims to deliver by 30 June 2018. Overtime we see CMP delivering more than 50% EBITDA margin for these \$4.5m units. For this first machine we estimate a 40% EBITDA margin.

**MEG machines measure brain waves directly vs. the heat/activity mapping that MRI Magnetic resonance imaging machines. MEG have applications with brain related illnesses such as Alzheimer's, dementia, multiple sclerosis, autism and epilepsy. We note that in 1990 there were 200 MRI's globally and now there are 38,000. Today there are just 150 MEG machines and all major brain disorders, many associated with aging population, can benefit from early detection and monitoring with MEG*

SomFit/e-Commerce -

One-offs/Adjustments: No one-offs. CMP has worn adjustments above the line for changeover of US sales team and starting step-out growth into 'MEG' and "SomFit"/e-Commerce. D&A has been lowered with \$0.8m less amortisation of R&D expense. Amortisation will lift again with amortising ~\$3m (PAC estimate) of MEG and SomFit capitalised costs amortised over 10years ('MEG') and 7years ("Somfit") years after first sale.

Gearing (D/E): We estimate net cash of \$3.8m at 30 June 2018 vs \$2.1m at 31 December 2018. CMP has a ~\$4m debt facilities which was drawn to \$0.826m at 31 December 2017 (\$0.657 overdraft and \$0.168m fixed term).

Tax rate: 5% tax rate for year with tax losses and R&D benefit. We estimate 20% tax rate from FY'19F.

COMMENTARY

Major turnaround in base diagnostics orders with USA (+49% hoh), Europe (+300% hoh) and strong China.

THESE BREAKOUT ORDERS ARE SIGNIFICANT BECAUSE MAJOR US COMPETITOR NATUS (BABY.NASDAQ) STILL HAS FLAT NEURO DIAGNOSTIC SALES. POSSIBLY DUE TO THE NEW CMP EQUIPMENT BEING BETTER VALUE FOR MONEY. We need another few halves to prove this theory.

A total \$6.5m orders received and not shipped at 31 Dec vs. \$3.0m pcp, and the late HY'18F Chinese shipments (say \$1.5m) caused accounts receivable to extend as well.

CMP has already received the Chinese payments in 3QFY18, and is confident of delivering previous guidance of EBITDA \$5.0m vs. HY'18A of \$1.1m

A significant part of this EBITDA should come from 1st 'MEG' shipment due in 2H18 for Arizona (USA) reference hospital. There is a pipeline of over 10 MEG machines slated for the next three years, and CMP has 40 prospective buyers in pipeline ex China.

We have established that the maker of ~120 of the first 150 MEG machines, Elekta (EKTAB:STO), has not sold a new machine for 18 months. The world is watching CMP's MEG in Arizona.

The other step out CMP growth path is the retail sleep application ("Somfit").

The trail blazer for Somfit Sleep monitoring is "FitBit". "FiBit" only uses simple, and unfortunately inaccurate, motion detection for sleep monitoring. CMP has technology leadership because "SomFit" uses nine channels of information from brain, eyes, blood flow and other (with 15 years of leadership in sleep and 20 patents.)

CMP realises that it does not have the retail and consumer skills and contacts to develop this market.

We understand potential partners are circling. In addition to successful prototypes of "SomFit", CMP has an e-commerce backbone roll-out in USA that is nearing positive cash flow.

This backbone is currently being used by day surgeries and sleep labs for a cheaper entry into sleep diagnostics. A "Professional e-Commerce" sleep lab only needs amplifier and bed in the room. Data is sent to analyser off site and reported back to medical professional.

The same network can be used by consumers with SomFit.

CMP GUIDANCE

AUDm	H1 FY17	H2 FY17	Total FY17	H1 FY18	H2 FY18*	Total FY18*
Sales	16.2	18.2	34.4	16.1	23.9	40.0
Margin \$	8.8	10.2	19.0	9.4	13.8	23.2
Margin %	54%	56%	55%	58%	58%	58%
Other income	0.3	0.5	0.8	0.2	0.2	0.4
Expenses	8.6	9.8	18.4	8.6	10.4	19.0
Fin Chg's	0.2	0.1	0.3	0.1	0.2	0.3
FX	0.0	0.0	0.0	(0.1)	0.0	(0.1)
Tax (inc)	0.1	(0.3)	(0.2)	0.1	0.1	0.2
PAT	0.2	1.1	1.3	0.7	3.3	4.0
Depn & amort'n	0.6	0.7	1.3	0.2	0.3	0.5
EBITDA	1.2	1.5	2.7	1.1	3.9	5.0

** Forecast data, based on current circumstances and information at hand at time the data was prepared.*

INVESTMENT OVERVIEW

We keep our Buy recommendation, and PT \$0.92/share.

The base CMP diagnostics is growing faster and across more regions vs. peers, and step out growth paths with MEG and SomFit are more tangible.

Each of the step out growth can add an extra \$0.50/share if global partners want to join CMP at this early stage. CMP has the opportunity to develop both in-house but this will stretch resources and probably require significantly additional time and/or capital.

PAC PARTNERS VS MARKET

PAC is only broker covering CMP in detail

Should you have any queries, please do not hesitate to contact me on +61 3 8633 9864.

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Compumedics

NFPOS

176 m

Price \$ 0.39
Market Cap \$69 m

PROFIT & LOSS (\$m)

Y/End	FY13A	FY14A	FY15A	FY16A	FY17A	FY18F	FY19F	FY20F
Revenue	27.2	30.8	33.5	37.5	34.3	40.4	54.5	82.5
EBITDA	0.3	3.0	4.1	5.3	2.7	5.0	11.4	19.3
Depreciation & Amortisation	1.2	1.4	1.4	1.8	1.3	0.5	0.5	0.5
EBIT	-0.9	1.6	2.7	3.6	1.4	4.5	10.9	18.8
Net Interest	-0.4	-0.6	-0.7	-0.4	-0.3	0.1	0.1	0.3
Income tax	-0.2	-0.1	0.0	0.2	-0.2	-0.6	-2.2	-3.8
NPAT underlying	-1.5	0.9	2.0	3.4	1.3	4.0	8.8	15.3
Equity Accounting Profits								
Less non-controlling Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NPAT underlying - attribu	-1.5	0.9	2.0	3.4	1.3	4.0	8.8	15.3
Abnormal items	0.0	0.0	0.0	0.0	-0.8	0.0	0.0	0.0
NPAT Reported.	-1.5	0.9	2.0	3.4	0.5	4.0	8.8	15.3

BALANCE SHEET (\$m)

Y/End	FY13A	FY14A	FY15A	FY16A	FY17A	FY18F	FY19F	FY20F
Cash	1.3	1.1	2.2	3.1	4.1	4.5	8.7	18.9
PP&E	0.7	0.7	0.8	0.8	0.7	2.0	3.1	5.0
Debtors & Inventory	13.6	14.7	15.5	18.4	20.5	23.3	26.7	31.8
Intangibles	3.5	2.9	2.7	2.4	2.4	3.7	3.9	4.0
Other assets	0.0	0.2	0.5	1.4	1.4	0.7	0.7	0.7
Total Assets	19.1	19.5	21.7	26.1	29.2	34.1	43.0	60.4
Borrowings	2.3	2.0	2.0	2.6	0.7	0.7	0.7	0.7
Trade Creditors	4.6	4.6	4.2	4.1	4.2	4.9	5.4	8.1
Other Liabilities	3.8	3.7	4.2	4.8	4.3	5.2	7.0	10.5
Total Liabilities	10.7	10.4	10.4	11.5	9.2	10.8	13.1	19.3
NET ASSETS	8.4	9.2	11.3	14.6	20.1	23.3	29.9	41.1

CASH FLOW (\$m)

Y/End	FY13A	FY14A	FY15A	FY16A	FY17A	FY18F	FY19F	FY20F
Operating EBITDA	0.3	3.0	4.1	5.3	2.7	5.0	11.4	19.3
Interest & Tax	(0.6)	(0.7)	(0.7)	(0.5)	(0.5)	(0.7)	(2.3)	(3.9)
Working Cap.	0.6	(1.6)	(1.1)	(2.4)	(4.1)	(1.2)	(1.3)	1.0
Operating CF	0.3	0.7	2.2	2.2	(1.9)	3.1	7.8	16.4
Maintenance Capex	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expansion Capex	(0.3)	(0.2)	(1.3)	(1.5)	(1.3)	(1.6)	(1.5)	(2.4)
Acquisitions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free Cashflow (FCF)	(0.1)	0.4	0.9	0.7	(3.2)	1.4	6.3	14.0
Ord Dividends	0.0	0.0	0.0	0.0	0.0	(1.0)	(2.2)	(3.8)
Equity, (Debt Paydown)	0.0	0.0	0.0	0.0	4.5	0.0	0.0	0.0
Net Cashflow	(0.1)	0.4	0.9	0.7	1.3	0.4	4.1	10.2

DIRECTORS

EXECUTIVES

	Shares (m)	Shares (m)
David Burton	96.0	Warwick Freeman (CTO) 0.1
David Lawson	3.4	
Alan Anderson	0.1	
Total	99.6	

DIVISIONAL SUMMARY (A\$m)

	eHealth (China)					eHealth (China + ROW)		
						add MEG		
Y/End	FY13A	FY14A	FY15A	FY16A	FY17A	FY18F	FY19F	FY20F
Revenue								
Sleep	8.1	9.3	9.4	12.4	10.8	12.2	13.7	14.4
Brain / Neuro	8.4	9.3	11.5	10.9	9.1	13.4	20.5	31.2
Blood Flow (DWL)	5.1	6.5	6.9	7.5	7.1	6.8	7.1	7.5
eHealth	0.0	0.0	0.0	0.0	0.5	1.0	5.0	20.0
Consumables/Services	5.4	5.9	5.7	6.8	6.8	7.1	8.2	9.4
Total	27.2	30.8	33.5	37.5	34.3	40.4	54.5	82.5
EBITDA								
Sleep	0.1	0.9	1.1	1.8	0.1	1.0	2.9	3.4
Brain / Neuro	0.1	0.9	1.4	1.5	2.8	3.8	7.3	11.9
Blood Flow (DWL)	0.1	0.6	0.8	1.1	0.0	0.6	1.5	1.7
eHealth	0.0	0.0	0.0	-0.4	-0.4	-1.5	1.0	6.0
Consumables/Services	0.1	0.6	0.7	1.4	1.4	1.4	1.6	2.8
Other	0.0	0.0	0.0	0.0	-1.1	-0.2	-2.9	-6.5
MILESTONE			0.0	0.0	0.0	0.0	0.0	0.0
Total	0.3	3.0	4.1	5.3	2.7	5.0	11.4	19.3

KEY RATIOS

Y/End	FY13A	FY14A	FY15A	FY16A	FY17A	FY18F	FY19F	FY20F
EBITDA Margin (%)	1.3%	9.6%	12.2%	14.2%	7.9%	12.4%	21.8%	24.1%
EBIT Margin (%)	-3.2%	5.1%	8.0%	9.5%	4.1%	11.2%	19.9%	22.8%
NPAT Margin (%)	-5.5%	2.9%	5.9%	8.9%	3.8%	9.9%	16.1%	18.5%
ROE (%) y/e	-17.8%	9.9%	17.5%	23.0%	6.5%	17.1%	28.9%	36.3%
ROI (%) y/e	-9.2%	15.6%	24.4%	25.2%	8.5%	23.3%	49.6%	82.2%
ROA (%) y/e	-8%	5%	9%	13%	4%	12%	20%	25%
NTA per share (\$)	0.09	0.09	0.11	0.13	0.15	0.17	0.22	0.32
Eff Tax Rate (%)	16.1%	-6.5%	-2.0%	6.3%	-15.0%	-14.0%	-20.0%	-20.0%
Interest Cover (x)	(2.1)	2.6	4.0	8.8	4.5	(49.0)	(98.6)	(63.6)
Net Gearing (%)	12.5%	10.5%	-2.0%	-3.4%	-16.9%	-16.4%	-27.9%	-45.6%

VALUATION PARAMETERS

Y/End	FY13A	FY14A	FY15A	FY16A	FY17A	FY18F	FY19F	FY20F
EPS Adj (cps)	-0.9	0.5	1.2	2.0	0.7	2.3	5.0	8.7
PE Adj (x)	-42.6	71.6	33.0	19.5	52.9	17.3	7.8	4.5
Enterprise Value (\$m)	69.9	69.8	68.6	68.3	65.4	65.0	60.4	49.6
EV / EBITDA (x)	204.3	23.5	16.8	12.8	24.2	13.0	5.1	2.5
EV / EBIT (x)	-80.5	44.1	25.5	19.2	46.4	14.3	5.6	2.6
Price / NTA	4.4	4.1	3.6	2.9	2.6	2.3	1.7	1.2
DPS (cps)	0.0	0.0	0.0	0.0	0.0	0.6	1.2	2.2
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	1.4%	3.2%	5.6%
Franking (%)	0%	0%	0%	0%	0%	0%	0%	0%
Free Cash / Share (c)	0.0	0.2	0.5	0.4	-1.8	0.8	3.9	8.2
Price / FCF PS (x)	-1323.5	159.7	74.6	99.3	-21.7	47.8	10.1	4.7

DCF VALUATION & SENSITIVITY

PV of Cashflows 2018 to 2020	7	Risk Free Rate	4.2%
PV of Cashflows 2021 to 2024	48	Equity Risk Premium	8.4%
PV of Term Year Cashflow	108	Equity Beta	1.09
		Cost of Equity	13.4%
		After Tax WACC	13.7%
Less OEI at FY17 y/e (Net Debt) or Cash	0 (0.5)	Terminal Growth	3.0%
PV of Equity	162		
PV of Equity per share	\$ 0.92		

TV WACC

	11.7%	13.7%	15.7%	17.7%
2.0%	\$ 1.10	\$ 0.86	\$ 0.70	\$ 0.58
2.5%	\$ 1.15	\$ 0.89	\$ 0.71	\$ 0.59
3.0%	\$ 1.20	\$ 0.92	\$ 0.73	\$ 0.60
3.5%	\$ 1.26	\$ 0.95	\$ 0.75	\$ 0.61
4.0%	\$ 1.32	\$ 0.99	\$ 0.78	\$ 0.63

MAJOR SHAREHOLDERS

	%		%
D&DJ Burton Holdings Pty Ltd	54.4%	Beijing Bestmed Tech	2.8%
Teijin Ltd	4.7%		
Armco Barriers Pty Ltd	3.5%	Top 4	65%

GROWTH PROFILE (YoY)

Y/End	FY13A	FY14A	FY15A	FY16A	FY17A	FY18F	FY19F	FY20F
Sales revenue	-3%	14%	9%	12%	-9%	18%	35%	51%
EBITDA	-319%	768%	37%	31%	-49%	85%	137%	67%
EBIT	-32%	-282%	70%	32%	-60%	222%	140%	73%
NPAT	-47%	-161%	117%	70%	-61%	206%	121%	74%
EPS (cps)	-48%	-160%	117%	69%	-63%	206%	121%	74%
DPS (cps)	0%	0%	0%	0%	0%	0%	121%	74%

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Recommendation Criteria

Investment View

PAC Partners Investment View is based on an absolute 1-year total return equal to capital appreciation plus yield.

Buy	Hold	Sell
>20%	20% – 5%	<5%

A Speculative recommendation is when a company has limited experience from which to derive a fundamental investment view.

Risk Rating

PAC Partners has a four tier Risk Rating System consisting of: Very High, High, Medium and Low. The Risk Rating is a subjective rating based on: Management Track Record, Forecasting Risk, Industry Risk and Financial Risk including cash flow analysis.

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