

## Compumedics (CMP)

### Step-out and supply chain reduce ongoing slippage

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#### KEY POINTS

- CMP's delay of \$5m FY'17F core diagnostic sales leads to a halving of FY'17F EBITDA.
- This slippage takes shine of strong success with step out growth with MEG and eHealth versus peers.
- We are confident that technical and cost advantages will remain sound across core diagnostic to step-outs in MEG and eHealth and lift long term DCF by 22%.
- We see 4QFY'17 sales slip being delivered in 1H'18F and a breakout earnings year in FY'18F, and stay with a Buy recommendation. Our 12 Month Price Target is reduced 10% to \$1.00/share until 1H'18F is confirmed

#### Actions to reduce slippage

**CMP lowered FY'17F revenue guidance** from \$38m to \$33m with delay of \$5m core diagnostic sales to 1Q'18.

This led to FY'17F EBITDA guidance being lowered from ~\$4.5m to between \$2.1m and \$3.6m. Most of the associated costs were already expensed.

2H'17 step-out success with MEG and eHealth was in line with our estimate. One MEG sale was signed for delivery in FY'18F, and US eHealth sales augmented Chinese sales.

Our FY'17F EBITDA is halved from ~\$4.50m to \$2.25m vs \$5.0m pcp.

**We keep our FY'18F sales at \$49.5m** with: Core diagnostic at \$36m (+9% on pcp), MEG at \$10m vs. \$0m pcp, and eHealth \$4.5m EBITDA vs. \$0.5m pcp.

CMP can now supply both premium and mid-tier diagnostic equipment by: streamlining its low cost global diagnostic machine supply chain (one-off cost \$0.6m); and, replacing half of its eight strong US sales team (one-off cost \$1m).

We note that CMP's major competitor in core diagnostics, Natus (BABY.NASDAQ), has had flat sales since CY'15. CMP is bringing a wider range of offerings across all channels (traditional sleep clinics, general practice, at home) with rejuvenated US sales beside EU and Asian teams.

MEG growth in FY'18F and FY'19F is set to meet our ambitious forecast of five unit sales with: one already signed; four at detailed stage; and, another 35 at preliminary stage. Each sale is worth \$5m with ~\$3m of EBITDA

eHealth FY18F sales of \$4.5m can now be met by a mix of US sales (\$0.3m recurring sales already locked in) and a third of the \$10m of Chinese contract.

**Investment View:** We are confident that CMP's technical and cost advantages are sound across core diagnostic to step-outs in MEG and eHealth and lift long term DCF by 22% to \$1.35/share. We see a breakout earnings year in FY'18F, and stay with a Buy recommendation. We lower PT 10% to \$1.00/share for modest increase to earnings risk from further core earnings' slippage.

#### RECOMMENDATION

**Buy**

Previous Recommendation	Buy
Risk Rating	High
Current Share Price	\$0.56
12 Month Price Target	\$1.00 (from \$1.11)
Price Target Methodology	14.4x FY'18F EV/EBITDA
Total Return (Capital + Yield)	58.6%
DCF Valuation	\$1.35 (from \$1.11)
Market capitalisation	\$99m
Liquidity – Daily Value	\$0.1m

#### EPS Changes & PAC Partners vs. Consensus

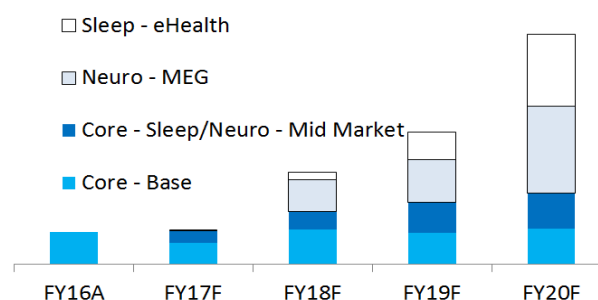
Y/e Jun (\$m)	2017F	2018F	2019F
Previous EPS (cps)	1.3	4.6	7.3
Change in EPS (%)	-70%	0%	0%

#### Financial Forecasts & Valuation Metrics

Y/e Jun (\$m)	2016A	2017F	2018F	2019F
Revenue	37.5	32.8	49.5	74.1
NPAT	4.3	0.9	8.0	12.4
EPS (cps)	2.5	0.5	4.5	7.0
EPS Growth	27%	-80%	788%	55%
DPS (c)	0.0	0.0	1.1	1.8
EV / EBITDA (x)	21.2	46.3	8.7	5.7
PER (x)	24.8	123.8	13.9	9.0
Dividend Yield	0.0%	0.0%	1.8%	2.9%
Gearing	-3%	-24%	-40%	-34%
Interest Cover (x)	na	na	na	57.1

Source: PAC Partners estimates

#### CMP – Divisional EBITDA



## Compumedics

NFOS

176 m

Price \$ 0.56

Market Cap \$99 m

## PROFIT &amp; LOSS (\$m)

Y/End	FY13A	FY14A	FY15A	FY16A	FY17F	FY18F	FY19F	FY20F
Revenue	27.2	30.8	33.5	37.5	32.8	49.5	74.1	111.5
EBITDA	0.3	3.0	4.1	5.0	2.3	11.5	17.3	27.4
Depreciation & Amortisation	1.2	1.4	1.4	1.4	1.4	1.4	1.5	1.5
EBIT	-0.9	1.6	2.7	3.6	0.9	10.0	15.9	25.9
Net Interest	-0.4	-0.6	-0.7	-0.5	-0.1	0.0	0.3	0.4
Income tax	-0.2	-0.1	0.0	0.2	-0.1	-2.0	-3.2	-5.3
NPAT underlying	-1.5	0.9	2.0	3.2	0.6	8.1	12.9	21.0
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 - attrib	-1.5	0.9	2.0	3.2	0.6	8.1	12.9	21.0
Abnormal items	0.0	0.0	0.0	0.0	-0.5	0.0	0.0	0.0
NPAT Reported.	-1.5	0.9	2.0	3.2	0.1	8.1	12.9	21.0

## BALANCE SHEET (\$m)

Y/End	FY13A	FY14A	FY15A	FY16A	FY17F	FY18F	FY19F	FY20F
Cash	1.3	1.1	2.2	3.1	7.5	13.4	15.4	22.1
PP&E	0.7	0.7	0.8	0.8	1.3	1.9	3.0	5.0
Debtors & Inventory	13.6	14.7	15.5	18.4	19.2	22.2	34.6	50.2
Intangibles	3.5	2.9	2.7	2.4	2.5	2.7	2.8	2.9
Other assets	0.0	0.2	0.5	1.4	0.9	0.9	0.9	0.9
<b>Total Assets</b>	<b>19.1</b>	<b>19.5</b>	<b>21.7</b>	<b>26.1</b>	<b>31.4</b>	<b>41.0</b>	<b>56.7</b>	<b>81.1</b>
Borrowings	2.3	2.0	2.0	2.6	2.6	2.6	2.6	2.6
Trade Creditors	4.6	4.6	4.2	4.1	4.3	5.0	7.3	10.9
Other Liabilities	3.8	3.7	4.2	4.8	4.2	6.3	9.5	14.2
<b>Total Liabilities</b>	<b>10.7</b>	<b>10.4</b>	<b>10.4</b>	<b>11.5</b>	<b>11.0</b>	<b>13.9</b>	<b>19.4</b>	<b>27.7</b>
<b>NET ASSETS</b>	<b>8.4</b>	<b>9.2</b>	<b>11.3</b>	<b>14.6</b>	<b>20.4</b>	<b>27.2</b>	<b>37.3</b>	<b>53.4</b>

## CASH FLOW (\$m)

Y/End	FY13A	FY14A	FY15A	FY16A	FY17F	FY18F	FY19F	FY20F
Operating EBITDA	0.3	3.0	4.1	5.0	2.3	11.5	17.3	27.4
Interest & Tax	(0.6)	(0.7)	(0.7)	(0.5)	(0.4)	(2.3)	(3.5)	(5.5)
Working Cap.	0.6	(1.6)	(1.1)	(2.4)	(1.1)	(0.3)	(7.1)	(7.5)
<b>Operating CF</b>	<b>0.3</b>	<b>0.7</b>	<b>2.2</b>	<b>2.2</b>	<b>0.8</b>	<b>8.8</b>	<b>6.8</b>	<b>14.3</b>
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)	(0.8)	(1.0)	(1.5)	(2.4)
Acquisitions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Free Cashflow (FCF)</b>	<b>(0.1)</b>	<b>0.4</b>	<b>0.9</b>	<b>0.7</b>	<b>(0.0)</b>	<b>7.9</b>	<b>5.3</b>	<b>12.0</b>
Ord Dividends	0.0	0.0	0.0	0.0	0.0	(2.0)	(3.2)	(5.3)
Equity, (Debt Paydown)	0.0	0.0	0.0	0.0	4.5	0.0	0.0	0.0
<b>Net Cashflow</b>	<b>(0.1)</b>	<b>0.4</b>	<b>0.9</b>	<b>0.7</b>	<b>4.5</b>	<b>5.9</b>	<b>2.0</b>	<b>6.7</b>

## DIRECTORS

## EXECUTIVES

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

## DIVISIONAL SUMMARY (A\$m)

Y/End	FY13A	FY14A	FY15A	FY16A	eHealth (China)	eHealth (China + ROW)		FY20F
							add MEG	
Revenue								
Sleep	8.1	9.3	9.4	12.4	9.3	11.6	14.5	15.2
Brain / Neuro	8.4	9.3	11.5	10.9	9.1	18.9	28.6	48.5
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	4.5	15.0	30.0
Consumables/Services	5.4	5.9	5.7	6.8	6.8	7.8	8.9	10.3
<b>Total</b>	<b>27.2</b>	<b>30.8</b>	<b>33.5</b>	<b>37.5</b>	<b>32.8</b>	<b>49.5</b>	<b>74.1</b>	<b>111.5</b>
EBITDA								
Sleep	0.1	0.9	1.1	1.6	0.6	2.7	3.4	3.7
Brain / Neuro	0.1	0.9	1.4	1.4	2.8	7.6	9.7	17.7
Blood Flow (DWL)	0.1	0.6	0.8	1.0	0.5	1.6	1.7	1.8
eHealth	0.0	0.0	0.0	0.0	0.1	1.1	4.5	12.0
Consumables/Services	0.1	0.6	0.7	1.4	1.7	2.3	2.7	3.1
Other	0.0	0.0	0.0	-0.5	-3.4	-3.8	-4.6	-10.9
MILESTONE								
<b>Total</b>	<b>0.3</b>	<b>3.0</b>	<b>4.1</b>	<b>5.0</b>	<b>2.3</b>	<b>11.5</b>	<b>17.3</b>	<b>27.4</b>

# Compumedics

Date:  
Model Updated:

10-Jul-17  
10-Jul-17

### KEY RATIOS

Y/End	FY13A	FY14A	FY15A	FY16A	FY17F	FY18F	FY19F	FY20F
EBITDA Margin (%)	1.3%	9.6%	12.2%	13.2%	7.0%	23.2%	23.4%	24.6%
EBIT Margin (%)	-3.2%	5.1%	8.0%	9.5%	2.7%	20.3%	21.4%	23.2%
NPAT Margin (%)	-5.5%	2.9%	5.9%	8.7%	1.9%	16.3%	17.4%	18.9%
ROE (%) y/e	-17.8%	9.9%	17.5%	22.3%	3.1%	29.7%	34.6%	39.4%
ROI (%) y/e	-9.2%	15.6%	24.4%	25.2%	5.7%	61.4%	64.9%	76.7%
ROA (%) y/e	-8%	5%	9%	12%	2%	20%	23%	26%
NTA per share (\$)	0.09	0.09	0.11	0.13	0.16	0.22	0.31	0.44
Eff Tax Rate (%)	16.1%	-6.5%	-2.0%	6.6%	-15.0%	-20.0%	-20.0%	-20.0%
Interest Cover (x)	(2.1)	2.6	4.0	7.0	6.5	(233.1)	(57.1)	(72.2)
Net Gearing (%)	12.5%	10.5%	-2.0%	-3.4%	-24.3%	-39.8%	-34.4%	-36.6%

### VALUATION PARAMETERS

Y/End	FY13A	FY14A	FY15A	FY16A	FY17F	FY18F	FY19F	FY20F
EPS Adj (cps)	-0.9	0.5	1.2	1.9	0.4	4.6	7.3	11.9
PE Adj (x)	-61.2	102.8	47.3	29.0	157.3	12.3	7.7	4.7
Enterprise Value (\$m)	99.9	99.8	98.6	98.3	93.9	88.0	86.0	79.3
EV / EBITDA (x)	292.0	33.6	24.2	19.8	40.9	7.7	5.0	2.9
EV / EBIT (x)	-115.1	63.0	36.6	27.6	107.4	8.8	5.4	3.1
Price / NTA	6.3	5.9	5.2	4.2	3.4	2.6	1.8	1.3
DPS (cps)	0.0	0.0	0.0	0.0	0.0	1.1	1.8	3.0
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	2.0%	3.3%	5.3%
Franking (%)	0%	0%	0%	0%	0%	0%	0%	0%
Free Cash / Share (c)	0.0	0.2	0.5	0.4	0.0	4.5	3.0	6.8
Price / FCF PS (x)	-1900.4	229.3	107.2	142.6	-2047.9	12.5	18.8	8.3

### DCF VALUATION & SENSITIVITY

PV of Cashflows 2017 to 2019	7	Risk Free Rate	4.0%
PV of Cashflows 2020 to 2024	62	Equity Risk Premium	8.5%
PV of Term Year Cashflow	166	Equity Beta	1.00
		Cost of Equity	12.5%
		After Tax WACC	12.9%
Less OEI at FY16 y/e	0	Terminal Growth	3.0%
(Net Debt) or Cash	(0.2)		
PV of Equity	238		
PV of Equity per share	\$ 1.35		

### TV WACC

	10.9%	12.9%	14.9%	16.9%
2.0%	\$ 1.67	\$ 1.25	\$ 0.98	\$ 0.79
2.5%	\$ 1.75	\$ 1.30	\$ 1.01	\$ 0.81
3.0%	\$ 1.84	\$ 1.35	\$ 1.04	\$ 0.82
3.5%	\$ 1.94	\$ 1.40	\$ 1.07	\$ 0.85
4.0%	\$ 2.05	\$ 1.46	\$ 1.11	\$ 0.87

### 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%	<b>Top 4</b>	<b>65%</b>

### GROWTH PROFILE (YoY)

Y/End	FY13A	FY14A	FY15A	FY16A	FY17F	FY18F	FY19F	FY20F
Sales revenue	-3%	14%	9%	12%	-13%	51%	50%	50%
EBITDA	-319%	768%	37%	22%	-54%	400%	51%	58%
EBIT	-32%	-282%	70%	32%	-75%	1048%	58%	63%
NPAT	-47%	-161%	117%	65%	-81%	1183%	60%	63%
EPS (cps)	-48%	-160%	117%	63%	-82%	1183%	60%	63%
DPS (cps)	0%	0%	0%	0%	0%	0%	60%	63%

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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.

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

Buy	Hold	Sell
>20%	20% – 5%	<5%

## 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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- a member of the immediate family of the author of this report

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