



February 2017

COMPANY Compumedics Limited | CMP | Growing pains | MCap \$88m | Buy and PT \$0.80/share (down 30%)

Event:

CMP had a very tough 2Q17 where sales disappointed in core products (US and EU), and first MEG sale was delayed

Impact:

It appears CMP had too much on its plate and poor systems. These factors led to slippage in core diagnostic US and EU sales.

1H17 EBITDA was \$1.2m vs our \$3.5m and pcp \$2.4m

There is possibly one industry factor with major competitor in sleep diagnostics (Natus BABY.NASDAQ) shipping lower volumes in USA this year.

There are a lot good initiatives underway in 2H17 and FY18...

...but they need to be discounted until CMP can deliver EBITDA growth with PT down 30% to \$0.80/share

See detail and key presentation chart below

Investment View:

We retain our Buy with PT \$0.80/share (down 30%)

Next Update:

Mid March Roadshow

DETAIL

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Impact:

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1H17 EBITDA was \$1.2m vs our \$3.5m and pcp \$2.4m with:

- (\$1.0m) from lower US sales of core sleep diagnostic devices
- (\$0.5m) from lower EU sales of core neuro diagnostic devices (DWL)
- (\$0.8m) from extra expenses not being recouped from initiatives across core and e-Health step-out

There is possibly one industry factor with major competitor in sleep diagnostics (Natus BABY.NASDAQ) shipping lower volumes in USA this year.

- We had originally thought this was CMP winning market share as it tackled mid-market (rather than just premium)
- We will need to revisit this assumption at FY17

There are a lot good initiatives underway in 2H17 and FY18...

- Recovery of core sales in 2H17:
 - New US manager in place as of 22 February;
 - European manager improving sales conversion;
 - Actual low cost Grael platform was largely delivered on time and will not slow sales initiatives;
 - Sales growth ex US and EU were positive in 1H and should continue into 2H (Asia and China up 45% on pcp, Latin America up 80%, and Australia in line with market)
- Step out growth in MEG and eHealth...Scale of EBITDA is \$3m for each MEG machine and scope for \$5m in medium term from eHealth Professional
 - MEG - CMP claims it still has three customers at late stage due diligence, with one due to make decision by end of May
 - This is a five month delay from original 31 Dec deadline, but we did not have any wins until 1 July 2018 anyway
 - We have not seen any major claims from CMP's MEG competitor (Elekta) of big new contract wins, so backlog mentioned by CMP rings true
 - eHealth – CMP has four US customers signed up to professional eHealth, and one has a multi sites across East Coast
 - With four US sites, CMP will be making positive EBITDA
 - eHealth China is already EBITDA positive with \$3m/a sales contracted for three years

...But they need to be discounted until CMP can deliver EBITDA growth with PT down 30% to \$0.80/share

- We lower FY17F EBITDA from \$9m to \$5m, the lower end of CMP's revised guidance of \$4.5m to \$7.5m
- We lower 12 Month Price Target 30% to \$0.80/share
 - Half of reduction with lower EBITDA
 - Half with high risk factor

Investment View:

We retain our Buy with PT \$0.80/share because: the 1H17 sales issues are fixable; and, CMP is still engaged in due diligence with original key MEG customer.

We were too aggressive with FY17 and FY18 EBITDA and lowering risk rating. We have now lowered earnings and raised risk, with each leading to half of the 30% reduction in PT to \$0.80/share.

EBITDA movement – H1 FY16 versus H1 FY17

