

October 2016

COMPANY Compumedics Limited | CMP | \$0.80/share | MCap \$141m

RECOMMENDATION Buy | High Risk | \$1.11/share target

EVENT - AGM where PAC Partners attended

KEY POINTS

- FY17 update confirms to us that EBITDA guidance of \$6m to \$8m (vs pcp \$5m) is tracking slightly above top end, and we keep our \$9.0m forecast.
- Core neuro and sleep growth is on track with wider range, and we think CMP is replacing competitor sales.
- Step-out growth across Brain Imaging and e-Health are due to start significant sales in next 2 to 5 months.
- PAC stays with 66%pa EPS growth for next four years, and 12 month price target of \$1.11/share.
- As CMP delivers its step out growth there are three valuation steps of ~30% each, ie: doubling our PT.

FY7F METRICS PER 22.1x | EV/EBITDA 14.5x | Yield 0.0%

LINK TO FINANCIAL SUMMARY [RN_CMP_271016](#)

STEPS TO GROWTH AND DERISKING

- FY17 update confirms to us that EBITDA guidance of \$6m to \$8m (vs pcp \$5m) is tracking slightly above top end, and we keep our \$9.0m forecast.
- We were able to confirm with CMP's US team that many existing and new clients have been waiting for new ranges of core neuro and sleep machines, and pick-up in EBITDA through FY17 and FY18 should be strong. Interestingly, CMP's largest US neuro competitor has reported lower US shipments over last few quarters. They see "normal" sales coming back soon. We will be watching to see in CMP is replacing competitor sales.
- Step-out growth across Brain Imaging (MEG - Magnetoencephalography) and e-Health are due to start significant sales in next 2 to 5 months. CMP is still targeting first MEG sale in 4QCY16, and now has 30 in pipeline. CMP announced today that the first major e-Health sites are being implemented in USA (and Chinese roll out is on track). We do not have significant sales until FY18, and any FY17 sales would be a bonus.
- Consumable, ~15% of group sales, has been revamped over last 12 months, and a new web enabled ordering systems is being rolled out for each customer. This will change a manually intensive system to semi-automated, and is in sync with the low cost, high service model CMP is rolling out across all products.
- PAC stays with 66%pa EPS growth for next four years, and 12 month price target of \$1.11/share.
- As CMP delivers its step out growth, we will be to lower risk (Weighted Average Cost of Capital). There are three steps of ~30% each which could conceivably be add over next 18 months.