EQUITY RESEARCH

PAC PARTNERS

COMPANY Compumedics (CMP) **MCAP** A$155m $0.88/share Date: 18 February 2020

RECOMMENDATION Buy | PT $1.40/share (+47%) | High Risk

EVENT FDA approval for MEG | Some blue sky is delivered

KEY POINTS

- **US FDA approval for CMP's new generation brain wave scanner makes tripling of EBITDA to $24m within three years more tangible. This helps CMP's EV/EBITDA reduce from 20.7x to 5.8x.**
- **In operation terms, CMP can double the FY'20F EBITDA of $7.3m from selling 2,000 premium sleep and brain diagnostic devices at $20,000 with just three new brain scanners @ $5,000,000 each.**
- **Two main hurdles for this new brain scanner (MEG) are cleared: One – Win major contract vs. global peer (and see it retire); and, Two – Today's FDA validation which allows reimbursement to start.**
- **We stay with our forecast of a significant ramp-up over three years to EBITDA of $24m, with 30% from Base and 70% from Step-outs (MEG, eHealth/Somfit)**
- **CMP reiterated its FY'20 EBITDA target of $6.5m to $7.5m in January 2020 without any contribution from MEG. Around 80% of the EBITDA is likely to come in 2H. CMP reports on 25 February.**

FY'21F METRICS PER 16.6x | EV/EBITDA 11.4x | Yield 1.5%

LINK TO RESEARCH REPORT RR_CMP_200218 (8 pages)

OPPORTUNITY TO MEET CMP MANAGEMENT AT PAC PARTNERS OFFICE

Melbourne – Tuesday 24 March – 12:30pm

Sydney– Wednesday 25 March – 12:30pm

INVESTMENT VIEW

We retain a Buy on CMP and expect it to re-rate towards 12 Month Price Target of $1.40/share (+47% today) with:

- Base (sleep & neuro diagnostic devices & services) deliver reliable growth with the dual premium and mid offers, and eHealth moves into growth leverage after the USA backbone build.
- Blue sky from Step-outs becoming more tangible with new orders of MEG in 2H'20F with US FDA approval granted today, and a distribution partner for SomFit which we expect by end CY2020.

COMPANY BACKGROUND

Compumedics (CMP) is a leading supplier of sleep and neurological diagnostic devices globally, with around 23k units installed and 1,500 units sold annually for $9k to $25k. 15-20% of group sales come from recurring services for existing units. CMP has captured around 30-40% of the premium end of sleep and neurological clinics across Nth America, Europe and China/Japan/Australia.

Since 2012 CMP has developed a lower cost solution for sleep/diagnostics with simpler units and an eHealth platform for the smaller testing centres.

CMP has also upskilled its neurological devices to move from a software supplier to 100 (of 130) ~A$5m Orion MEG <MagnetoEncephaloGraphy> machines to a supplier of the full device with Korean Partner (KRISS). The first Orion MEG was installed in reference Barrow Institute in Arizona USA in 2019. Feb'20 US FDA approval gives more confidence to six new MEG sales over the next two years, and $7+m/annum EBITDA by FY'23F.

CMP is preparing to take a simple sleep diagnostic device (SomFit) to the retail market, and would prefer to do with a consumer goods partner.

KEY DRIVERS

- Brain wave diagnostics for autism, dementia & other neurological conditions require a 10x faster and more accurate MRI which is a new machine (MEG - MagnetoEncephaloGraphy)
- Sleep and neuro diagnostic growth in clinics (hardware & software) and smaller centres (amplifier & cloud)
- Consumer sleep testing with simplified sensor (Somfit)

MILESTONES

- **TODAY - MEG FDA approval. We believe more strongly now that there will be one or two MEG orders announced by 30 June 2020**
- FY'20F - US Adventist Health hospital orders and boost to low cost diagnostic sales
- FY'20F SomFit – Distribution partner by 4Q
- FY'22F: $20m EBITDA

RISKS

- $9k to $25k per unit core sleep and neuro diagnostic business becomes low margin with competition and/or slow turnover. *Mitigation: CMP saw this squeeze and: lowered cost; increased geographic distribution; and, accelerated eHealth products and services.*
- $5m Orion MEG machine adoption rate has been slow. **Today's FDA approval speeds up adoption rate, due to validation and ability to reimburse some procedures via health funds. See detail below.** *Issue: There used to be 10 units sales per year of lower accuracy MEG with CMP software in ~80% of all MEGs sold. The pause over last three years for upgraded Orion MEG with CMP/KRISS improvements suggests a major re-think. Individual hospital local budget allocation and building space are also required to place an order with A$1m upfront cost and total equipment cost of A$5m. The test centre and ancillaries would push cost to A$7m -A$10m.*
- $200 SomFit consumer product is too far from CMP's core and distracts team. *Mitigation – CMP is trying to partner SomFit with distribution and manufacturing companies. CMP will do trials with Diabetes and Sporting groups in order to raise profile. CMP also has a new range of equipment for the home sleep-testing market which will extend the Base unit market and keep CMP up to date on what home testing services are relevant. CMP is also rolling out its eHealth cloud based network in USA and Australia. Somfit can use the same infrastructure and reduce start-up delays and cost.*

DETAIL – STEPS TO MEG ADDING $7M EBITDA BY FY'23F (DOUBLING BASE FY'20F EBITDA)

The detail for MEG is below, but the "other CMP business" also adds $8m by FY'23 for our EBITDA forecast of $24m for group:

- *+$5.2m from eHealth/Somfit (eHealth roll-out along East Coast USA is replicated West Coast and Europe. This takes some of the growth from Base Brain/Neuro and Base Sleep, because cheaper devices are sold to hospitals and CMP cloud service picks up the "clip the ticket" service charge per patient. SomFit is a very minor EBITDA contribution until it is partnered.)*
- *+$2.3m from Base Brain/Neuro Devices (1,000/annum device sales to ~1,400/annum plus more consumable/service sales)*
- *+$1.0m from Base Sleep Devices (1,000/annum device sales to ~1,200/annum plus more consumable/service sales)*

The $7m EBITDA from MEG comes from a few divisions in our Financial Model:

- $5.7m from MEG sales stepping up from **one** over the last three years to **three new MEG's** by start FY'23F (and gradual step up into long term – ie: only to Research based hospitals)
- $1.3m of MEG Consumables and Services and lower Corporate Costs (with development costs being recovered)

The steps we take to lower the risk for our original forecast of: 1 MEG sale in FY'21, 2 in FY'22 and three in FY'23 include:

1 - MEG may take the same path as MRI adoption.

- The "new" MEG is ideally suited to measuring brainwaves for child/adult neurological and cancer disorders vs. the 1980's MRI which measures structures and temperatures at 10x slower speeds to MEG . MRI is suitable for orthopaedic/muscle/basic cancer diagnosis.
- Both MEG and MRI machines cost US$3m to US$4m and need to be housed in hospitals to have commercial business models of (say) 60 patients a day charged ~US$500 for 15min. (Giving a ~two year payback with 25% margin and 50/50 machine/labour & room)
- The initial phase of MRI and MEG roll-out was to the 1,000 high end Research hospitals around the world. After 10 years in the 1980's there were 200 MRI's globally, and no FDA clearance. After 10 years to 2017 there were 130 MEG globally.
- Fast forward to 2020, there are 36,000 MRI's globally and 2,500 sold annually into the ~100,000 key hospitals globally. Ie: There is a ~30% penetration rate with some hospitals having multiple MRIs.

We step through the FDA and competition issues for MEG below. The major boost for MRI was FDA and Health Funds opening up reimbursement codes so the cost and benefits of diagnosis could be shared by health fund, government and patient.

2 - CMP software is in ~100 of the 130 previous version of MEG

- Up until 2017 there were around 10 to 13 MEGs sold each year and 80-90% was Elekta MEG machines with MEG software.
- CMP was only paid a fraction of the US$4m cost.
- CMP decided to sell the next generation software and hardware (from Korean KRISS) directly to hospitals in ~2016
- CMP targeted the #1 Neuro Clinic in the USA (Arizona Barrow Neurological Institute) and won its first stand-alone MEG contract vs Elekta in FY'17 with its "Orion" MEG machine.

3 - CMP/KRISS represents the next generation of MEG with:

- Dual adult and child dewar – allows all patients to be treated by the same machine with quick transition
- Receptors closer to brain – 50+% more resolution that alternative MEG
- Many other novel features such as recycling all helium during patient diagnosis – lowers the price because machine does not need downtime for cleaning/changing helium, and uses less helium over time
- Next generation CMP software with its patented 30 year algorithms and many other features suited to plugging into eHealth and databases.

4 – CMP/KRISS beat incumbent Elekta/Old CMP Software in FY'18

- During this BNI bidding process the other neuro centres stopped purchasing new MEG machines,
- CMP/KRISS won the BNI tender, and this led to major competitor leaving industry (Elekta)
- Elekta sold its MEG division to a Private Equity group (York Instruments). This group is trying to enter the MEG industry. To our knowledge they have not delivered one complete MEG machine.

5 – US FDA clearance is important for validation and reimbursement

- **A KEY REASON FOR BOOST TO UPTAKE OF MRI IN 1990's WAS FDA APPROVAL AND RECEIVING REIMBURSEMENT CODES. THIS APPEARED TO HAPPEN IN TWO PARTS:**
  - **First treatment was for existing x-ray and ultrasonic testing at "old" rates**
  - **Second treatment was for enhanced tests which could only be done by MRI's**
- **CMP's FDA 510(k) FOR MEG ALLOWS IT TO RECEIVE SOME REIMBURSEMEMT FOR EXISTING DISEASE TREATMENT OF ADULTS AND PITCH TO 1,000 KEY RESEARCH HOSPITAL**
  - **CMP received adult OK from US FDA today**
  - **Hospitals require FDA (or other local approval) to charge fees for service and recoup cost of machines like MEG**
  - **CMP should have OK for child by the end of year (It was simpler for CMP to apply for FDA approval with 2019 adult data from BNI)**
  - **Hospitals ordering the MEG will have option to buy the double dewar now and should be able to treat adult and children when MEG is installed and commissioned in 1HCY'21F**
- **CMP HIGHLIGHTED TODAY THAT THERE ARE 40 HOSPITALS ON ORDER BOOKS AND FOUR IN DETAILED DUE DILIGENCE. MANY WERE WAITING FOR FDA APPROVAL**
  - **This represents just 4% of the top global research hospitals**
  - **We understand there are another 20 hospitals from China expressing interest in buying MEG machines. CMP has had a strong presence in China with its sleep and neuro devices for over 20 years and has ~50% market share in premium hospitals**
  - **We understand that many hospitals were waiting for FDA approval for validation that CMP/KRISS was equivalent to CMP/Elekta, and ability to charge commercial rates to patients and health funds for services**
  - **We retain our step up of orders for MEG at one or two ordered by 30 June 2020, and one delivered in FY'21F, two FY'22F and three FY'23F**
- **A LATER BOOST COMES FROM NEW DISEASE TREATMENT CODES WHICH CAN ONLY BE DONE BY MEGs FAST BRAIN WAVE DETECTION…THIS MAY TAKE FIVE YEARS...BUT LOWER EV/EBITDA to <1**
  - **Fortunately MEG's are well suited to aging neuro disease (Alzheimer/dementia) and areas receiving a lot of attention (epilepsy, multiple sclerosis, autism)**
  - **BRI and other early users of MEG will be doing clinical trials to publish research papers and these will be used by CMP and partners to justify new treatment codes for "MEG only"**
  - **This has potential to step MEG sales up from to 10pa and then 1,000pa**
  - **With 50% EBITDA going to CMP the EBITDA is US$17.5m at 10pa and US$175.0m at 1,000pa**
  - **This would put CMP on EV/EBITDA of X at 10pa and just Y at 1,000pa**

OUR OLD PITCH - THREE STEPS TO 3.5X IMPROVEMENT IN EBITDA OVER THREE YEARS

1 – Full range of sleep and neuro diagnostics. CMP now has the three tier distribution (premium, mid-level and eHealth) with full range of products. This one stop shop for premium sleep and neuro labs and basic day centres was key to winning preferred Adventist's preferred vendor status for its 48 US hospitals in March 2019.

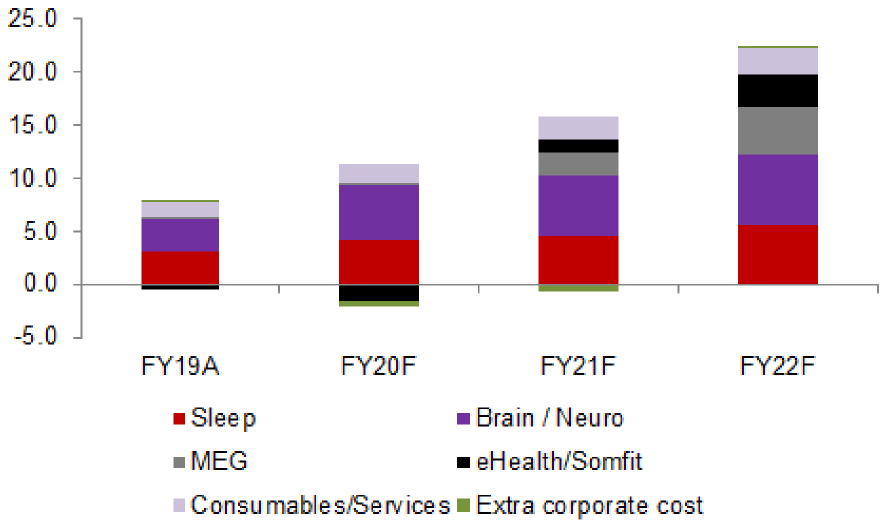
2 – Consumables and eHealth are expanding profitably. Many diagnostic companies talk about obtaining 20% of EBITDA from sale of consumable, and profitable and profitable leverage of eHealth backbone. We estimate CMP delivered 25% of FY'19A EBITDA from consumables, and made first positive EBITDA 30+ customer sites eHealth platform.

3 – MEG roll-out is now very tangible with FDA approval. SomFit is back-up.

CMP installed its first MEG at Barrow Neurological Institute in Phoenix USA in May 2019. Fee paying patients will start in 2020 post FDA approval. CMP has at least 40 enquiries to purchase MEG, and four have progressed to a significant level of due diligence. We expect one two more research based hospitals to order MEGs in 2H'20F.

Somfit was $1m loss maker in FY'19 with a trial for a regional sports team and product development. We forecast similar development cost above the EBITDA line this year and a distribution partner to be named in 2H'20F. CMP has had one false start with partner (Health100), so we prefer to keep SomFit as a back-up kicker to earnings in 2020

CMP – Divisional EBITDA ($m)



Source: PAC Partners estimates

Should you have any queries, please do not hesitate to contact me on + 613 9114 7444

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If you value our research or corporate product, we do appreciate your business.

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Compumedics

Price $ 0.88 **SomFit Partner**

NFPOS 176 m **Market Cap** $155 m **Out**

PROFIT & LOSS ($m)

Y/end	FY13A	FY14A	FY15A	FY16A	FY17A	FY18A	FY19A	FY20F	FY21F	FY22F	FY23F
Revenue	**27.2**	**30.8**	**33.5**	**37.5**	**34.3**	**36.5**	**41.5**	**45.9**	**55.6**	**70.8**	**80.9**
EBITDA	0.3	3.0	4.1	5.3	4.4	4.2	5.9	7.3	13.0	19.8	23.7
Depreciation & Amortisation	1.2	1.4	1.4	1.8	1.3	0.5	-0.5	-0.5	-0.5	-0.4	-0.4
EBIT	**-0.9**	**1.6**	**2.7**	**3.6**	**3.1**	**3.7**	**6.4**	**7.8**	**13.5**	**20.2**	**24.1**
Net Interest	-0.4	-0.6	-0.7	-0.4	-0.3	-0.2	-0.3	-0.2	-0.2	-0.2	-0.1
Income tax	-0.2	-0.1	0.0	0.2	-0.4	-0.5	-1.2	-2.3	-4.0	-6.0	-7.2
NPAT underlying	-1.5	0.9	2.0	3.4	1.3	3.0	4.9	5.3	9.3	14.1	16.8
Equity Accounting Profits											
Less non-controlling Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NPAT underlying - attributed	**-1.5**	**0.9**	**2.0**	**3.4**	**1.3**	**3.0**	**4.9**	**5.3**	**9.3**	**14.1**	**16.8**
Abnormal items	0.0	0.0	0.0	0.0	-0.8	0.0	0.0	0.0	0.0	0.0	0.0
NPAT Reported.	-1.5	0.9	2.0	3.4	0.5	3.0	4.9	5.3	9.3	14.1	16.8

BALANCE SHEET ($m) = Does not include capex for Health 100 JV

Y/end	FY13A	FY14A	FY15A	FY16A	FY17A	FY18A	FY19A	FY20F	FY21F	FY22F	FY23F
Cash	1.3	1.1	2.2	3.1	4.1	3.9	4.6	4.6	7.6	11.9	19.7
PP&E	0.7	0.7	0.8	0.8	0.7	0.7	1.7	3.1	4.3	5.5	6.7
Debtors & Inventory	13.6	14.7	15.5	18.4	21.2	23.5	23.8	27.3	30.9	37.4	42.1
Intangibles	3.5	2.9	2.7	2.4	2.4	4.0	6.8	7.1	7.5	7.9	8.3
Other assets	0.0	0.2	0.5	1.4	0.8	1.3	1.8	1.8	1.8	1.8	1.8
Total Assets	**19.1**	**19.5**	**21.7**	**26.1**	**29.2**	**33.4**	**38.7**	**44.0**	**52.2**	**64.5**	**78.5**
Borrowings	2.3	2.0	2.0	2.6	0.7	1.9	1.6	1.6	1.6	1.6	1.6
Trade Creditors	4.6	4.6	4.2	4.1	4.2	5.1	4.4	5.5	5.8	6.2	6.9
Other Liabilities	3.8	3.7	4.2	4.8	4.3	4.5	5.4	5.5	6.9	8.7	9.9
Total Liabilities	**10.7**	**10.4**	**10.4**	**11.5**	**9.2**	**11.5**	**11.4**	**12.5**	**14.2**	**16.5**	**18.4**
NET ASSETS	**8.4**	**9.2**	**11.3**	**14.6**	**20.1**	**21.9**	**27.3**	**31.4**	**38.0**	**48.0**	**60.1**

CASH FLOW ($m)

Y/end	FY13A	FY14A	FY15A	FY16A	FY17A	FY18A	FY19A	FY20F	FY21F	FY22F	FY23F
Operating EBITDA	0.3	3.0	4.1	5.3	4.4	4.2	5.9	7.3	13.0	19.8	23.7
Interest & Tax	(0.6)	(0.7)	(0.7)	(0.5)	(0.4)	(0.2)	(0.3)	(2.1)	(3.8)	(5.9)	(7.1)
Working Cap.	0.6	(1.6)	(1.1)	(2.4)	(4.1)	(1.1)	(2.0)	(2.0)	(2.2)	(4.5)	(2.9)
Operating CF	**0.3**	**0.7**	**2.2**	**2.2**	**0.9**	**0.6**	**5.1**	**3.2**	**7.0**	**9.4**	**13.6**
Maintenance Capex	0.0	0.0	0.0	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)	(2.0)	(1.9)	(1.8)	(1.7)	(1.7)	(1.6)
Acquistions	0.0	0.0	0.0	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**	**(0.4)**	**(1.5)**	**3.3**	**1.4**	**5.3**	**7.7**	**12.1**
Ord Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(1.3)	(2.3)	(3.5)	(4.2)
Equity, (Debt Paydown)	0.0	0.0	0.0	0.0	4.2	1.2	(2.3)	0.0	0.0	0.0	0.0
Net Cashflow	**(0.1)**	**0.4**	**0.9**	**0.7**	**3.8**	**(0.3)**	**1.0**	**0.0**	**3.0**	**4.2**	**7.9**

DIRECTORS

	Shares (m)
David Burton	96.0
David Lawson	3.4
Tucson Dunn	0.0

EXECUTIVES

	Shares (m)
Warwick Freeman (CTO)	0.1
Total	**99.5**

DIVISIONAL SUMMARY (A$m)

Y/end	FY13A	FY14A	FY15A	FY16A	FY17A	FY18A	FY19A	FY20F	FY21F	FY22F	FY23F
Revenue											
Sleep	8.1	9.3	9.4	12.4	10.8	10.0	11.5	12.1	12.7	13.3	14.0
Brain / Neuro	13.6	15.7	18.4	18.4	16.3	16.1	19.7	21.0	23.1	25.5	28.3
MEG	0.0	0.0	0.0	0.0	0.0	2.3	0.5	0.9	4.5	9.0	11.7
eHealth/SomFit	0.0	0.0	0.0	0.0	0.5	1.0	2.0	3.0	5.0	10.0	11.5
Consumables/Services	5.4	5.9	5.7	6.8	6.8	7.1	7.8	9.0	10.3	12.9	15.5
Total	**27.2**	**30.8**	**33.5**	**37.5**	**34.3**	**36.5**	**41.5**	**45.9**	**55.6**	**70.8**	**80.9**
EBITDA											
Sleep	0.1	0.9	1.1	1.8	0.6	0.4	1.5	2.3	2.4	3.0	3.3
Brain / Neuro	0.2	1.5	2.2	2.6	3.2	2.8	3.0	5.2	5.7	6.7	7.5
MEG	0.0	0.0	0.0	0.0	0.0	0.8	0.2	0.2	2.3	4.5	5.9
eHealth/SomFit	0.0	0.0	0.0	-0.4	-0.4	-1.5	-0.5	-1.7	1.3	3.0	3.5
Consumables/Services	0.1	0.6	0.7	1.4	1.4	1.4	1.6	1.8	2.1	2.6	3.1
Extra corporate cost	0.0	0.0	0.0	0.0	-0.3	0.3	0.1	-0.5	-0.7	0.0	0.5
MILESTONE			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	**0.3**	**3.0**	**4.1**	**5.3**	**4.4**	**4.2**	**5.9**	**7.3**	**13.0**	**19.8**	**23.7**

Compumedics

Date: 17-Feb-20 **SomFit Partner Out**

Model Updated: 17-Feb-20

KEY RATIOS

Y/end	FY13A	FY14A	FY15A	FY16A	FY17A	FY18A	FY19A	FY20F	FY21F	FY22F	FY23F
EBITDA Margin (%)	1.3%	9.6%	12.2%	14.2%	12.9%	11.4%	14.1%	15.9%	23.4%	28.0%	29.3%
EBIT Margin (%)	-3.2%	5.1%	8.0%	9.5%	9.1%	10.1%	15.3%	17.0%	24.2%	28.6%	29.8%
NPAT Margin (%)	-5.5%	2.9%	5.9%	8.9%	3.8%	8.2%	11.8%	11.7%	16.8%	19.9%	20.8%
ROE (%) y/e	-17.8%	9.9%	17.5%	23.0%	6.5%	13.7%	17.9%	17.0%	24.6%	29.3%	28.0%
ROI (%) y/e	-9.2%	15.6%	24.4%	25.2%	18.6%	18.5%	26.2%	27.5%	42.2%	53.6%	57.4%
ROA (%) y/e	-8%	5%	9%	13%	4%	9%	13%	12%	18%	22%	21%
NTA per share ($)	0.09	0.09	0.11	0.13	0.15	0.17	0.18	0.21	0.25	0.32	0.40
Eff Tax Rate (%)	16.1%	-6.5%	-2.0%	6.3%	-15.0%	-14.0%	-20.0%	-30.0%	-30.0%	-30.0%	-30.0%
Interest Cover (x)	(2.1)	2.6	4.0	8.8	10.0	17.8	24.4	49.0	84.6	126.8	302.0
Net Gearing (%)	12.5%	10.5%	-2.0%	-3.4%	-16.9%	-9.2%	-11.0%	-9.7%	-15.9%	-21.4%	-30.1%

VALUATION PARAMETERS

Y/end	FY13A	FY14A	FY15A	FY16A	FY17A	FY18A	FY19A	FY20F	FY21F	FY22F	FY23F
EPS Adj (cps)	-0.9	0.5	1.2	2.0	0.7	1.7	2.8	3.0	5.3	8.0	9.6
PE Adj (x)	**-96.2**	**161.6**	**74.4**	**44.1**	**119.1**	**51.6**	**31.7**	**28.9**	**16.6**	**11.0**	**9.2**
Enterprise Value ($m)	155.9	155.8	154.6	154.4	151.5	152.8	151.9	151.8	148.8	144.6	136.7
EV / EBITDA (x)	455.9	52.5	37.9	29.0	34.4	36.6	25.9	20.7	11.4	7.3	5.8
EV / EBIT (x)	-274.5	82.8	57.5	43.4	48.8	41.4	23.9	19.5	11.0	7.1	5.7
Price / NTA	9.9	9.3	8.1	6.5	5.8	5.3	4.9	4.2	3.5	2.7	2.2
DPS (cps)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.8	1.3	2.0	2.4
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.9%	1.5%	2.3%	2.7%
Franking (%)	0%	0%	0%	0%	0%	0%	0%	0%	100%	200%	300%
Free Cash / Share (c)	0.0	0.2	0.5	0.4	-0.2	-0.8	1.9	0.8	3.0	4.4	6.9
Price / FCF PS (x)	-2978.0	359.3	168.0	223.5	-362.7	-105.7	47.2	112.0	29.2	20.0	12.8

DCF VALUATION & SENSITIVITY - Excludes SomFit Partner

PV of Cashflows 2020	1	Risk Free Rate	4.2%
PV of Cashflows 2021 to 2024	28	Equity Risk Premium	8.4%
PV of Term Year Cashflow	163	Equity Beta	0.68
		Cost of Equity	9.9%
SomFit JV Capex	0.0	After Tax WACC	9.6%
Less OEI at FY17 y/e	0	Terminal Growth	3.0%
(Net Debt) or Cash	3.0		
PV of Equity	195		
PV of Equity per share	$ **1.11**		

DCF VALUATION & SENSITIVITY - Includes SomFit Partner

PV of Cashflows 20	(8)	Risk Free Rate	4.2%
PV of Cashflows 21-24	61	Equity Risk Premium	8.4%
PV of Term Year Cashflow	361	Equity Beta	0.68
		Cost of Equity	9.9%
Somfit JV Capex	(18)	After Tax WACC	9.6%
Less OEI at FY19 y/e	0	Terminal Growth	3.0%
(Net Debt) or Cash	3		
PV of Equity	399		
PV of Equity per share	$ **2.27**		

TV WACC

Term Growth	7.6%	9.6%	11.6%	13.6%
2.0%	$ 1.40	$ 0.98	$ 0.73	$ 0.58
2.5%	$ 1.52	$ 1.04	$ 0.77	$ 0.60
3.0%	$ 1.68	**$ 1.11**	$ 0.81	$ 0.62
3.5%	$ 1.87	$ 1.19	$ 0.85	$ 0.65
4.0%	$ 2.11	$ 1.28	$ 0.90	$ 0.68

Price Target	$ 1.40
	Blend of scenarios
Excludes SomFit Partner	75%
Includes SomFit Partner	25%

MAJOR SHAREHOLDERS

	%		%
D&DJ Burton Holdings Pty Ltd	55.3%	Beijing Bestmed Tech	2.8%
HSBC Custody Nominees	5.3%		
		Top 4	**63%**

GROWTH PROFILE (YoY)

Y/end	FY13A	FY14A	FY15A	FY16A	FY17A	FY18A	FY19A	FY20F	FY21F	FY22F	FY23F
Sales revenue	-3%	14%	9%	12%	-9%	6%	14%	11%	21%	27%	14%
EBITDA	-319%	768%	37%	31%	-17%	-5%	40%	25%	78%	52%	20%
EBIT	-32%	-282%	70%	32%	-13%	19%	72%	23%	73%	50%	19%
NPAT	-47%	-161%	117%	70%	-61%	131%	63%	10%	74%	51%	20%
EPS (cps)	-48%	-160%	117%	69%	-63%	131%	63%	10%	74%	51%	20%
DPS (cps)	0%	0%	0%	0%	0%	0%	0%	0%	74%	51%	20%

Recommendation Criteria

Investment View

PAC Partners Investment View is based on an absolute 1-year total return equal

Buy	Hold	Sell

to capital appreciation plus yield.

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

>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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The views expressed in this research report accurately reflect the personal views of Paul Jensz about the subject issuer and its securities.

The following person(s) holds an economic interest in the securities covered in this report or other securities issued by the subject issuer which may influence this report:

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