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Compumedics (CMP)

Delivering clinic and cloud growth

Key Points

- CMP specialises in manufacturing sleep diagnostic and neurological devices for global market with 20,000 units in operation. CMP has 15 ASX listed years of experience.
- In FY'14 CMP returned to profit with NPAT \$1 million, and doubled to \$2m in FY'15.
- Global growth will continue with lower cost platform; and wider product/service offering to North America and China.
- eHealth takes "clinic grade" analysis into homes, with expert remote analysis. This expands market significantly. \$10m of contracts into China over next 5 years start in FY'16.

Three step strategy—Low costs, distribution expansion, eHealth

CMP's sustainable cash flow growth includes:

Multiple Shots on Goal. CMP started in 1987 as a developer and manufacturer of the first Australian, fully computerised sleep clinic device, and expanded into neurology monitoring by acquiring Neuroscan in 2002. CMP further expanded into brain blood flow monitoring with acquisition of German based DWL in 2004.

Gold Standard Advantage. CMP has attained ~6% market share of the global sleep diagnostic market with: strong innovative spirit; trusted analytics; in-place regulatory approval; active research involvement and targeting premium customers.

Next Phases of growth. CMP is now moving its 25 years of experience and R&D to a differentiated, low cost platform with broader North American direct sales and Chinese distribution.

The Productivity Enhancement Program initiated in 2013, has reduced overall cost base through outsourcing part of manufacturing process and securing low-cost input components. The ongoing program is looking to improving production efficiency.

A newly developed cloud-based, sleep diagnostic platform (eHealth), is ready for commercialisation. eHealth takes "clinic grade" analysis into homes, and expands market significantly via tapping into individuals and partners taking charge of health.

View: We initiate with a Buy recommendation with price target of \$0.67/share due to 103% premium to share price. The eHealth platform, which has potential to be 50% of CMP long term with strong distribution partners, is just 17% of price target (and 34% of longer term DCF).

Milestones:

CY16 – Core business continues 11% revenue growth with improved devices and faster EBITDA growth with low cost

Launch of eHealth platform commercialisation with new partners

New automatic system development underpinned by newly granted patent (with DWL), and tap into the brain analysis imaging market.

CY17- Substantial eHealth sales expected

Risks:

- Delay in product development and commercial roll-out.
- Working capital/distribution needed to fund capacity upgrades
- FX fluctuations – CMP prefers weaker Australian dollar

Disclaimer: PAC Partners is currently engaged by CMP for research services on commercial terms.. Please refer to full disclaimer information on page 13.

Recommendation

Buy

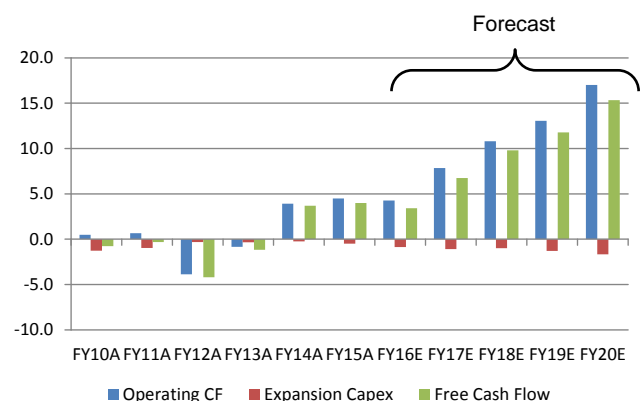
Previous Recommendation	Initiation Report
Risk Rating	High
Current Share Price	\$0.33
12 Month Price Target	\$0.67
Price Target Methodology	DCF with 50%eHealth
Total Return (Capital + Yield)	103%
DCF Valuation	\$0.80
Market Capitalisation	\$55m
Liquidity – Daily Value	\$0.1m

Financial Forecasts & Valuation Metrics

Y/e 2015 (\$m)	FY15A	FY16F	FY17F	FY18F
Revenue	33.5	37.6	42.7	51.7
EBITDA	4.1	5.7	8.5	12.1
NPAT	2.0	3.1	6.0	8.7
EPS (cps)	1.2	1.9	3.6	5.2
EPS Growth	117%	59%	90%	46%
DPS (c)	0.00	0.00	0.00	0.00
EV / EBITDA (x)	13.4	9.1	5.4	3.7
PER (x)	27.9	17.6	9.2	6.3
Dividend Yield	0.0%	0.0%	0.0%	0.0%
Cash Balance	2.2	5.6	12.4	13.5

Source: PAC Partners estimates

History and Future of Free Cash Flow



Source: Company reports and PAC Partners estimates

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Summary Swot

Strengths	Weaknesses
<ul style="list-style-type: none"> Highly regarded global brand and business Well established links with distributors Outsourcing manufacturing to lower cost regions Cloud-based, miniaturised platform - eHealth 	<ul style="list-style-type: none"> Revenue relies heavily on export markets. High working capital requirement at start-up Liquidity risk Heavy reliance on single distributor in China
Opportunities	Threats
<ul style="list-style-type: none"> Developing world’s aging population will boost demand Increasing government support on preventative health Increasing China demand follow FTA agreement 	<ul style="list-style-type: none"> Competition from larger US competitors Volatility in Australian exchange rate High level of regulation

Board and Executives

Directors	Comment
<ul style="list-style-type: none"> Dr. David Burton – Executive Chairman/Founder Alan Anderson - Director David Lawson – CFO/Director 	<ul style="list-style-type: none"> 60.4% shareholder. 0.0% shareholder. 2.6% shareholder.

Grael – Neurology & Sleep

The Grael range targets the low and mid-tier market

Somfit is expected to be the main revenue source in the medium term



Source: CMP Product Information Sheet

Somfit – eHealth Platform



Source: CMP Product Information Sheet

Executive Summary and Risks

Vision: World Leading Supplier of Medical Technology for Patient Monitoring

Objectives: Have multiple shots on goal and well positioned for growth opportunities

CMP started in 1987 as a developer and manufacturer of first Australian, fully computerised sleep clinic device, and expanded into neurology monitoring by acquiring Neuroscan in 2002. Further expansion into the brain blood flow diagnostics by acquiring German based DWL in 2004. CMP's products are sold directly to institutions like medical centres, universities, and hospitals globally.

Key Actions:

- Further cost reduction initiatives for the assembly and manufacture of existing key products
- Continual process of facilitating geographical market expansion into the US, German and China markets
- Launch commercialisation of the "Somfit" and the cloud-based diagnostic platform (eHealth)

Milestones

- Higher gross margin result from cost reduction to flow through in FY16 and beyond
- Complete product range of Graef for sleep and neurology, and employ key sales personnel in the US
- New automatic system development underpinned by the recently granted TCD patent
- eHealth development, alliance and other distribution channels progressed.

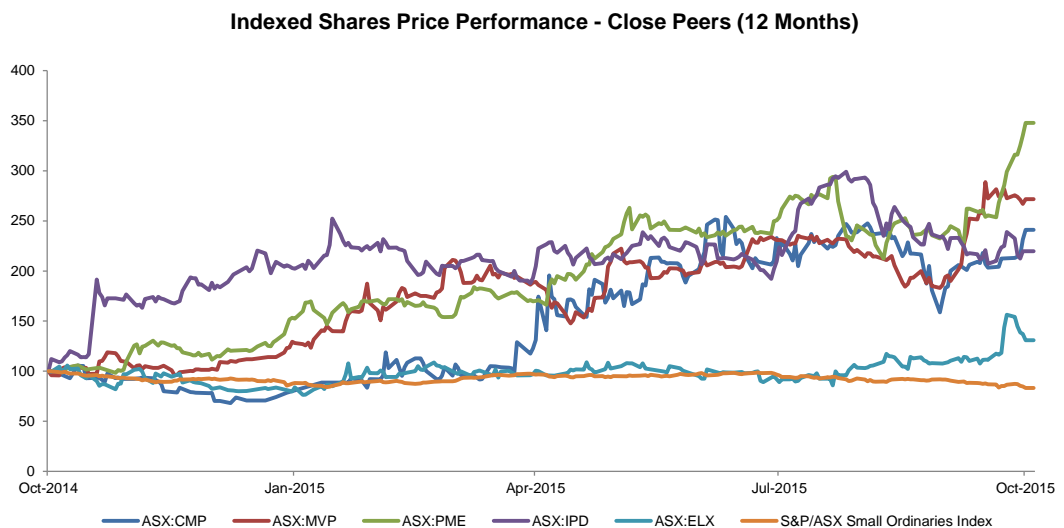
Risks:

- Delay in product development and commercial roll-out.
- Working capital needed to fund capacity upgrades and distribution (without partners)
- FX fluctuations – CMP prefers weaker Australian dollar

View

We initiate with a Buy recommendation with price target of \$0.67/share due to 103%% premium to share price. The eHealth platform, which has potential to be 50% of CMP long term, is just 17% of price target, (and 34% of longer term DCF valuation).

Chart: CMP share price vs. Peers and ASX200



Source: CapitalIQ

Market giants to watch:

Natus Medical incorporated. (NasdaqGS:BABY), is a direct competitor to CMP but much bigger in size (Market Cap at ~US\$1.3b), ~60% of total revenue are made out of the US, and the remaining are from the rest of the world.

Nihon Kohden Corp. (TSE:6849), established in 1951, is the second-largest neurology supplier in the US and a dominant player in Japan. However, it is a traditional Japanese family business, which is very conservative.

ResMed (NYSE.RMD) is not a direct competitor, but launched first sleep diagnostic product - Apnealink Air in Dec 2013 as a complement to existing product line. ResMed has strong distribution channels.

Jawbone and FitBit (NYSE.FIT) are leading eHealth global consumer devices fitness/wellness. Emerging players inc: Adherium (ADR.NZX), Isona (ISN.ASX), Brain Resource (BRC.ASX), Muse Meditation, EarlySense, SleepSense.

Listed on ASX in 2000, and expanded through acquisitions....

Three-step strategy to lift the business...

Exchange rate is uncertain...

CMP has outperformed the ASX200

Notwithstanding, most close peers have outperformed:

MVP – Pentrox supplier, formed alliance with Mundipharma to launch commercialisation in EU.

PME – Major contracts won in the US for its 3D PACS technologies with minimum guaranteed.

IPD – received CPT code of US\$112.67 for L-Dex procedure for the assessment of lymphoedema.

ELX - successful clinical investigations followed by expansion into MIGS on 1 Oct 2015

ResMed has started to add diagnostics to range

Jawbone & FitBit leading eHealth fitness

Multiple Shots on Goal

2012 – Restricted Working Capital was a trigger for change

Compumedics started in 1987 as the first computerised medical devices supplier for sleep diagnostics in Asia Pacific region. It has since become the gold standard in the patient monitoring space.

Large sales orders left on hand led to...

In 2012, total sales order of \$6.4m were left on hand due to the under-managed restricted working capital, and resulted in a NPAT of -\$2.8m. This taught CMP a harsh lesson.

...improved customer service cycle...

CMP reviewed its business model that was relevant through fast growth decade and improved on many fronts:

- Moved from one-off sale of the products to replacement cycle of 3 to 7 years
- Added recurring sale of consumable items such as sensors, electrodes. Replacement cycle of 3 to 9 months
- Simplified technical service and support contracts, which struck on a per product/system/patient bed basis

In addition, CMP has secured primary working capital refinancing with its finance providers.

...lower cost base, wider customer base, deeper geographic reach...and eHealth push

CMP has also came up with a three pronged approach to further lift the business:

1. Ongoing Productivity Enhancement Programs to lower cost base for wider customer base (see *Next section*)
2. Geographical expansion of the core business (see *Strategic Expansion in the US and China*)
3. Commercialisation of eHealth (see *E-Health*)

Productivity Enhancement Program

Launched the Productivity Enhancement Program in 2013, to eliminate and reconfigure expensive and inefficient processes with each part of the business. This allows CMP to target “midmarket” vs. previous premium only customers.

Adding “mid market” to premium

To date, the program has initiated:

- Relocate/outsourcing some manufacturing activities to lower cost regions – China and Taiwan
- Source cheaper input components

Cheaper manufacturing process and input components

The EBITDA margin has improved from 1.3% in FY13 to 12.2% FY15, yet further cost reduction to flow through in FY16.

Geographical expansion of the core business

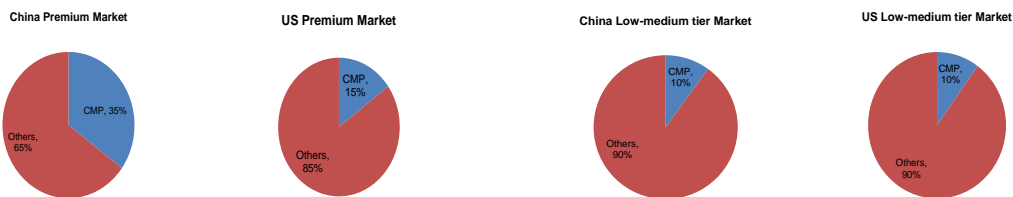
CMP has well established relationships to expand its core business into main markets around the world.

- US, CMP is looking to expand into the US market through the completion of product range, and actively seeking sales and support personnel.
- China, CMP has over a decade long relationship with distributors in China, and Beijing Bestmed Tech Ltd, a loyal partner, has become the fourth largest shareholder with ~3% shareholding since 2013. CMP is now the number one supplier of sleep diagnostic devices in China. However, more contracts and revenue growth are yet to come.

Leveraged on existing relationship...

CMP has secured 35% and 15% of the premium sleep diagnostic market in China and the US respectively

We see CMP reaching 10% market share of mid market over medium term.



Source: PAC Partners estimates.

Source: PAC Partners estimates.

CMP – Forecast Revenue and EBITDA (\$m) – EBITDA margin moving from 5% to 15%

EBITDA margin lifting to 15% with lower cost base and doubling sales

	<u>FY10A</u>	<u>FY11A</u>	<u>FY12A</u>	<u>FY13A</u>	<u>FY14A</u>	<u>FY15A</u>	<u>FY16F</u>	<u>FY17F</u>	<u>FY18F</u>	<u>FY19F</u>	<u>FY20F</u>
Total Revenue	32.4	30.9	27.9	27.2	30.8	33.5	37.6	42.7	51.7	63.0	78.6
EBITDA	1.5	0.6	-0.2	0.3	3.0	4.1	5.7	8.5	12.1	15.2	20.2

Source: PAC Partners estimates

Keep the Gold Standard with Lower Cost Base

Keeping gold standard performance

NASA endorsed in 1994

CMP has been a leader in the computerised sleep diagnostic space since its establishment in 1987. The technology was first endorsed when in 1994, NASA chose its P-Series for Space Shuttle mission preparation and the international space station mission preparation.

25 years of premium position in sleep diagnostics

CMP has kept its position well in this highly innovative market for over 25 years, because it has

- *Strong Innovative Spirit*, since its establishment, CMP has never stopped advancing its technology and products, it is recognised as one of Australia's top 100 Health Innovators in 2011.
- *Trusted Analytics*, CMP has accurate sleep, respiratory and brain analysis software suites, resulting from decades of algorithm evolution and development.
- *In-place Regulatory Approval*, most of CMP's products have FDA clearance to market in the US, CE market in the EU, and other approvals in the targeted markets.
- *Active Research Involvement*, over the past 5 years, CMP has consistently spent 14-16% of its revenue back into R&D, and the company captures 35% of the Global Brain Research market.

Lower cost base

Outsourcing and cheaper inputs are key

CMP has been known as 100% Australian business for decades. The shortage of working capital in 2012 rang warning bell.

CMP started the Productivity Enhancement Program in 2013, which initiated:

- Relocation/outsourcing of part of its manufacturing to lower labour cost countries, i.e. China and Taiwan
- Simplifying and standardising components, and using this to source larger numbers of input components (at cheaper price)

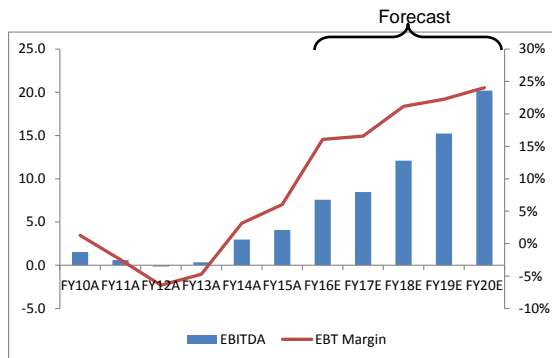
Today, large proportion of input components is sourced from a hybrid combination of local manufactures and established offshore suppliers.

These measures have improved CMP's EBITDA margin from 1.2% in FY13 to 12.2% in FY15. We assume it should stabilise at around 15% in the medium term with larger volumes and ongoing efficiency improvements.

Improvement in EBITDA margin for the past 3 years

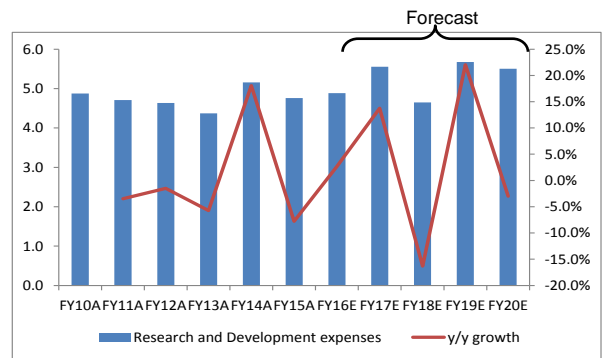
Consistent R&D investment facilitates innovation

EBITDA Analysis



Source: PAC Partners estimates

Consistent R&D Investment



Source: PAC Partners estimates

Strategic Expansion in the US and China

Secured ~70% local sleep market

CMP is the No.1 sleep disorders diagnostic monitoring provider in Australia with ~70% market share. Over last 12 years CMP has ramped up efforts in the world's largest medical devices market – the US, and the fastest growing market – China.

US market

CMP won the NASA contracts for International Space Station and Space Shuttle flight preparation in 1994. The contract was the key for CMP to open the door of the US market. CMP is no.3 sleep diagnostic supplier in USA with ~15% market.

Two-step strategy to lift sales in the short-term

CMP has taken the following strategic moves to build its US market position:

- Release of complete Grael range of patient amplifiers with wider diagnostic service range and easier interface
- Direct CMP sales and support personnel

Grael product range to address a wider market spectrum

The new range of Grael patient amplifiers have been designed to address a wider market spectrum, it targets the lower and mid-tier market segments. Grael already received FDA clearance in 2011, and has been rolled out during the five to seven year replacement cycle, and new premium clinic sales.

The release of the Grael EEG and Grael Light to the US market are expected to be in January 2016 and additional versions to follow in CY'16. This allows CMP to sell into mid-tier market for the first time at an attractive price point.

Larger direct sales force

CMP has an office in Charlotte, North Carolina with 8 sales people. CMP is looking to aggressively expand its sales force and double the team in the short to medium term.

Total US revenues were \$10.7m in FY15, and we assume a solid 10% growth rate to \$11.8m in FY16.

Grael – Neurology & Sleep

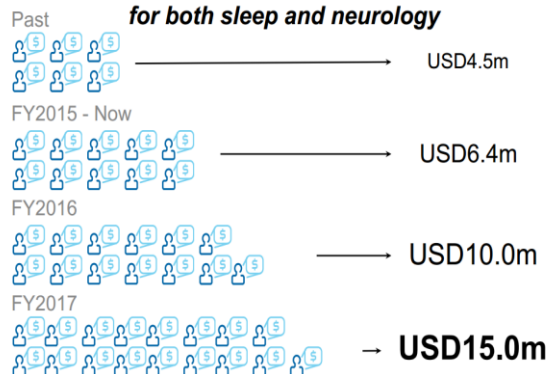
The Grael range targets the low and mid-tier market



Source: CMP Product Information Sheet

Direct sales force – drives sales growth

More sales representatives > more revenue for both sleep and neurology



Source: CMP Corporate Presentation 2015

Big China

CMP's partner Bestmed is leading Chinese sleep diagnostic distributor

“Beijing Bestmed Tech”, a long-term distributor of CMP's sleep diagnostic products, is a Chinese company specialised in distribution and maintenance of Sleep respiratory products, Heart and Lung care products, headquartered in Beijing.

Beijing Bestmed Tech and CMP have become strategic partners since 2000. In 2013, Bestmed Tech injected \$0.5m of working capital funding into CMP and become the fourth largest shareholder of CMP with ~3% shareholding.

CMP's brand is recognised as No.1 sleep diagnostic brand in China.

New contracts signed for distribution in China:

- Three-year distribution for neurological monitoring systems on 21 April 2015, providing total revenue of \$2.2m
- \$7.5m three-year distribution for sleep diagnostic and monitoring systems on 15 June 2015
- On 21 September 2015, addition \$1m distribution contact for sleep diagnostic distribution.

\$10.7m distribution contracts secured in the past six months

Based the above newly signed contracts, CMP has locked in 10% p.a. growth for the next three years in China.

IP protection is a major concern for foreign companies to enter China. We believe CMP is well positioned against the risk:

- Established trustworthy relationship with Chinese distributors
- Specialised in-house IP manager and specific guidelines in-place

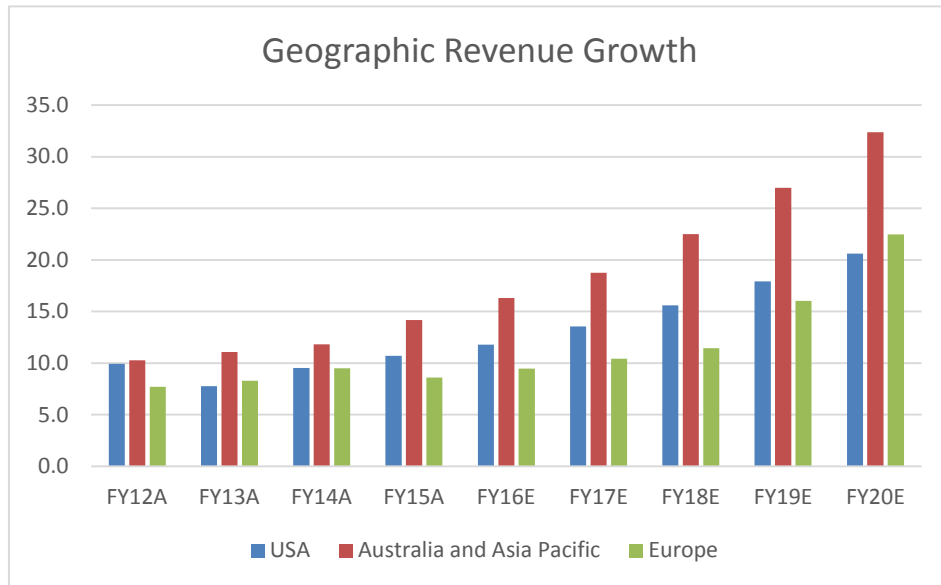
CMP's highly regarded brand, together with its loyal distributors, is well positioned to access the world's fastest growing medical devices market.

We assume 10%~ 15% growth for the US region and 15%~20% growth for the Asia Pacific region in the short and medium term.

Group revenue is assumed to growth at 10% p.a. in the short to medium term...

...with the US and China being the top contributors...

...New product launch by DWL is expected in FY2019, which potentially lead to huge sales growth in Europe.



Source: Company reports, PAC Partners estimates

DWL Compumedics Germany GmbH

Vision – Innovation for people

DWL has been focusing on development and optimization of the Transcranial Doppler Sonography (TCD) since its inception in 1991. DWL is headquartered in Singen, and has a subsidiary in California to facilitate sales in the North American Region.

Currently, 8,000 systems with 35% market share

CMP acquired DWL in 2004, and has since expanded into brain blood flow monitoring space. DWL has secured ~35% market share in the Global Doppler Ultrasound market (~A\$19m in market size), with 8,000 Doppler systems in operation in more than 120 countries.

Consistent management

Mr Christoph Witte has served as the Managing Director of DWL Compumedics Germany GmbH before and after acquisition, and has developed strong technical and commercialisation/distribution teams.

DWL's growth strategy is in line CMP, which focus on taking the leading diagnostic device to global markets, with focus on premium clinics and then widening to mid-markets.

DWL USA, a newly established subsidiary of DWL located in California, makes direct sale distributions to the North American region through local sales representatives.

Wider distribution

Over the past few years , DWL exhibited steady growth in the Chinese market , annual sales has grown up from €1.4 million (~A\$1.95m) per year to €1.8 million(~A\$2.5m) per year. On 30 March 2015, DWL secured new agreement to supply 30 Doppler Boxes to military hospitals in China, which provides A\$375,000 gross revenue.

New Patent – underpins new growth opportunities

On 14 April 2015, CMP obtained the auto-scan TCD patent in Europe, which provides medium term growth opportunities in 3D Transcranial Colour Doppler (TCCD)/Duplex Imaging.

New applications with stroke and brain disease

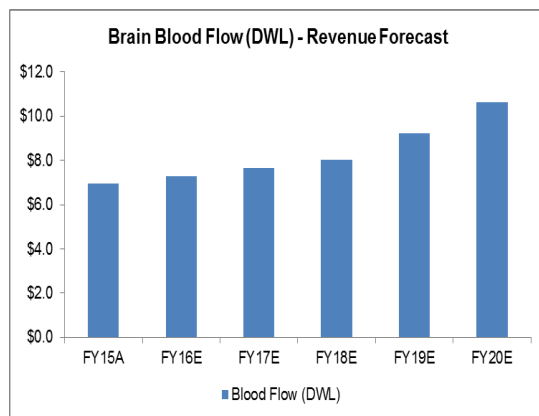
The patent covers a servo-controllable transducer, which allows automatic detection in the brain supplying arteries as well as the discovery of narrowing in the arterial system. This provides DWL access to the much wider stroke treatment market (~US\$1.9bn market) and Traumatic Brain Injury (TBI) market (~US\$76.5bn market)

Key Risks:

- Delay in product development and commercial roll-out
- Strong competition from local manufacturers

We assume product development would take up to 3 years. Therefore, 5% short-term growth rate . First product launch and sales lift are expected in FY2019.

Short-term Revenue Forecast



Source: Company Reports

Doppler-Box™X – launched in 2011



Source: DWL product information

eHealth

Five years taken to make sleep device miniature

Just \$199 for deep and REM sleep monitoring...

...and 50c/day for remote checking...

...that taps into global databank and clinician

Building Blocks to take “clinic grade” sleep* diagnostic to home

CMP has been developing the building blocks for e-health applications over the last five years

- “Somfit” a miniaturised core sleep device diagnostic tool (see forehead sensor on page 2) - CMP has brought key sensors for measuring deep sleep and REM (rapid eye movement) sleep, along with mobile telemetry device into Somfit. Device will sell for \$199 plus.
- Remote data transfer – Data can be downloaded onto smart phone or personal computer and patient/carer can monitor sleeping patterns and hours of deep and REM sleep vs target population average for sleep. There is a fee per day for monitoring (~50c/day) which pays for consumable “electrode” that power the Somfit.
- Global processing for patient and clinician. – Data and information can be sent via web to check sleep vs population average and for further analysis by specialist.

*CMP has many other diagnostic tools that are relevant to eHealth, sleep just the forerunner

Commercialisation channels. CMP has a three pronged approach to grow from its R&D and manufacturing hubs:

Builds on existing sleep clinic base

1. **Sleep clinics.** CMP has already had some thought leading sleep specialists work with CMP, and a total of \$10m collaboration contract over next 5 years secured in China. These specialists see an opportunity of taking sleep diagnosis to new markets without access to conventional clinics, and for patients reticent to come to (or pay for) clinics overnight. US and European specialist also see Somfit being an initial tool that taps into patients where lack of sleep is part of the health solution. (Note: CMP is considering seeking a diagnostic code in target markets to assist commercialisation)

Pharmacy wants new diagnostic tools

2. **Health Retail – Pharmacy.** Patients and carers are already buying a vast array diagnostic and treatment equipment from large pharmacy stores outside of thermometers and crutches. Most blood pressure monitors, pumps and tools for diabetic/asthma are now purchased outside of hospital system. Somfit is well placed to be a complimentary purchase for these devices, and, over time, a destination buy for early stage sleep disorders.

Wearables need better sleep diagnostics

3. **Wellness Retail – Wearables.** Somfit meets the need of anyone frustrated with current wearables and mobile phone applications which only measure motion or noise. CMP has Somfit models which can be worn on wrist (for normal pulse and motion) during the day, and then on forehead at night.

Valuation – eHealth division - \$45m

Our DCF valuation of \$45m on eHealth was determined from:

- Selling 50k Somfits per annum by 2020 (\$10m) and make most of the revenue from consumable electrodes and online registrations.
- Growing at 15% until revenue doubled to \$40m to 2025. Note: The Chinese contracts which CMP have won are worth \$10m, so stepping up to 2x and then 4x this per year is probable.
- EBITDA margin were set at a modest 30% as there will be significant distribution costs, and recurring revenue stream has not been proven yet

DCF valuation based on \$20m sales by 2020, which is...

Simple checks vs peers found that valuation and funds raised for emerging eHealth companies are between \$20m to \$100m (see below) and that blue sky is possible. FitBit and Jawbone devices have sales of \$500+m sales per annum.

... supported by peers

eHealth – peer valuation metrics (A\$ unless otherwise stated)

eHealth blue sky is possible...

....FitBit and Jawbone devices have annual sales of \$500++m

	Mcap or Funding Valuation	Status	Revenue	EBITDA	Ref	Description
CMP - eHealth	\$59m Mcap	Division of CMP.AX	1	0.1	PAC Partners	\$20m sales by 2020 with \$8m EBITDA
Adherium (NZ\$)	NZ\$89m (100% eHealth)	ADR.NZX	FY2017	FY2017	-3 Bell Potter	we value CMP at eHealth = \$45m (5.6x FY'20 EV/EBITDA) asthma inhaler sensor and remote system
Isona	\$17m (100% eHealth)	ISN.ASX				diabetes phone ap with web applications
Brain Resource Company	\$28m (partly eHealth)	BRC.ASX				brain function software and sensors with web systems
Muse Meditation (US\$)	US\$7.2m funding 2012 & 2013	Private				meditation software
EarlySense (US\$)	US\$53m funding 2010-15	Private				non-contact bed sensor and mobile software
SleepSense (US\$)	US\$40m funding 2015	Private				non-contact sleeping room sensor and mobile software
Jawbone (US\$)	US\$670m funding 2002-2014	Private	550			fitness/wellness device and software Temasek is an investor
FitBit (US\$)	US\$7.6bn	NYSE:FIT	FY2014	222	737	significant m&a roll-up - Visere, Massive Helath, Body Media
			HY2014	HY2015		wearable step and pulse band

Source: Company reports and PAC Partners estimates

ASX-Listed Peer Review

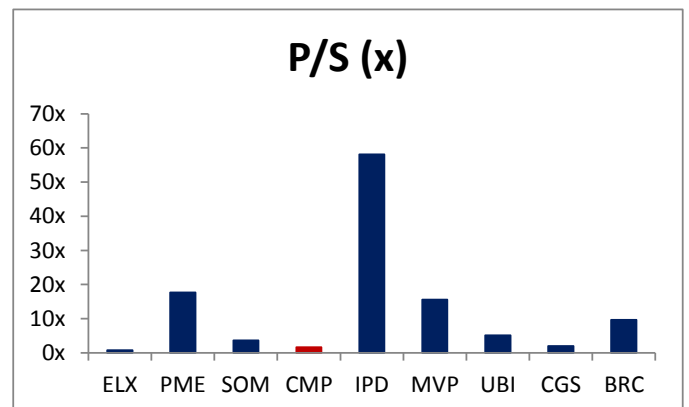
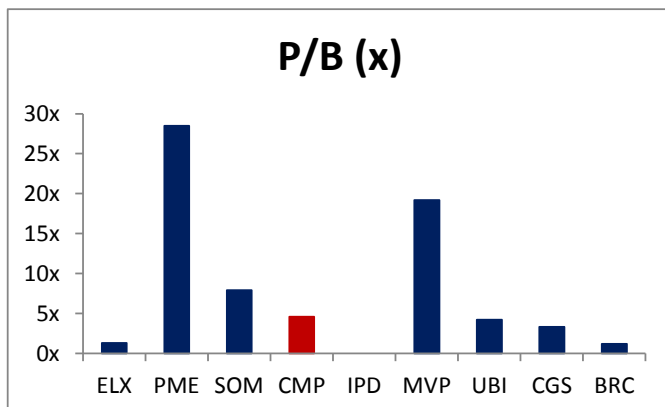
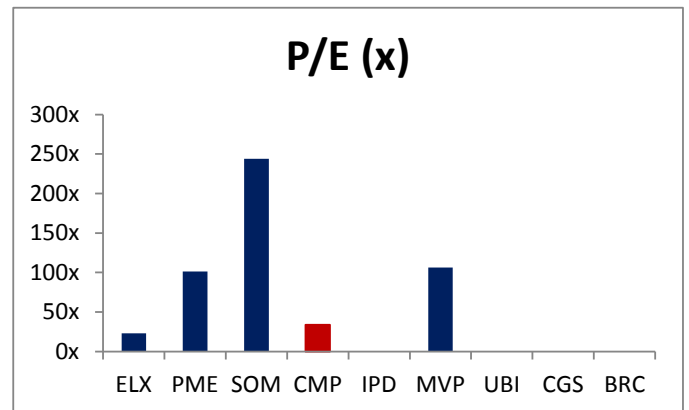
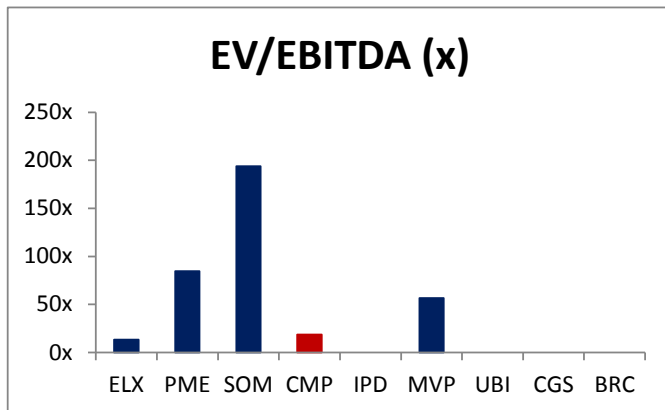
ASX - Listed Medical Devices Manufacturers

	Ellex Medical Lasers	PRO Medicus	SomnoMed	Compumedics	ImpediMed	Medical Developments	Universal Biosensors	CogState	Brain Resource
Stock Code	ELX	PME	SOM	CMP	IPD	MVP	UBI	CGS	BRC
Total Debt (mrrq) (AUD in mn) :	6.80	0.00	0.00	2.00	0.00	1.10	18.90	0.00	10.30
Total Cash (mrrq) (AUD in mn) :	4.60	12.90	8.30	2.20	32.60	1.00	10.70	5.50	4.30
Market Cap (9/10/15) (AUD in mn)	49.50	309.00	124.70	55.90	278.80	180.70	72.10	32.20	26.10
Enterprise Value (9/10/15)(AUD in mn)	51.70	296.10	116.40	55.70	246.20	180.80	80.30	26.70	32.10
<i>RANK</i>	7	1	4	6	2	3	5	9	8
EBITDA (ttm) (AUD in M)	3.90	3.50	0.60	3.00	-15.00	3.20	-9.50	-3.60	-2.50
<i>RANK</i>	1	2	5	4	9	3	8	7	6
EV/EBITDA (x)	13.3	84.6	194.0	18.6	NA	56.5	NA	NA	NA
Stock Price (9/10/15/15) (in AUD)	0.46	3.04	2.44	0.34	0.95	3.19	0.41	0.30	0.20
<i>RANK</i>	5	2	3	7	4	1	6	8	9
Diluted EPS (ttm) (in AUD)	0.02	0.03	0.01	0.01	-0.06	0.03	-0.03	-0.05	-0.02
P/E (x)	23.0	101.3	244.0	34.0	NA	106.3	NA	NA	NA
<i>RANK</i>	5	3	1	4		2			
P/B (x)	1.3	28.5	7.9	4.6	NA	19.2	4.2	3.3	1.2
<i>RANK</i>	2	8	6	5		7	4	3	1
Sales Revenue (AUD in mn)	62.7	17.5	34.4	33.5	4.8	11.6	14.1	16.1	2.7
P/S (x)	0.8	17.7	3.6	1.7	58.1	15.6	5.1	2.0	9.7
<i>RANK</i>	1	8	4	2	9	7	5	3	6
EV/REV (x)	0.8	16.9	3.4	1.7	51.3	15.6	5.7	1.7	11.9
<i>RANK</i>	1	8	4	3	9	7	5	2	6

Source: Capital IQ and PAC Partners estimates

Trading Multiples

Peers with positive profits, are trading at much higher multiples.



Source: Capital IQ

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Compumedics

NFPOS

167 m

Price \$ 0.33

Market Cap

\$55 m

PROFIT & LOSS (\$m)

Y/End	FY10A	FY11A	FY12A	FY13A	FY14A	FY15A	FY16F	FY17F	FY18F	FY19F	FY20F
Revenue	32.4	30.9	27.9	27.2	30.8	33.5	37.6	42.7	51.7	63.0	78.6
EBITDA	1.5	0.6	-0.2	0.3	3.0	4.1	5.7	8.5	12.1	15.2	20.2
Depreciation & Amortisation	0.5	1.0	1.1	1.2	1.4	1.4	1.4	1.4	1.4	1.5	1.5
EBIT	1.0	-0.4	-1.3	-0.9	1.6	2.7	4.3	7.0	10.7	13.8	18.7
Net Interest	-0.6	-0.4	-0.5	-0.4	-0.6	-0.7	-0.6	0.0	0.2	0.2	0.1
Income tax	0.0	0.8	-1.0	-0.2	-0.1	0.0	-0.6	-1.1	-2.2	-2.8	-3.8
NPAT underlying	0.4	0.1	-2.8	-1.5	0.9	2.0	3.1	6.0	8.7	11.2	15.1
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 - attribut	0.4	0.1	-2.8	-1.5	0.9	2.0	3.1	6.0	8.7	11.2	15.1
Abnormal items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NPAT Reported.	0.4	0.1	-2.8	-1.5	0.9	2.0	3.1	6.0	8.7	11.2	15.1

BALANCE SHEET (\$m)

Y/End	FY10A	FY11A	FY12A	FY13A	FY14A	FY15A	FY16F	FY17F	FY18F	FY19F	FY20F
Cash	1.8	1.2	1.1	1.3	1.1	2.2	5.6	12.4	13.5	14.1	14.4
PP&E	0.9	0.8	0.8	0.7	0.7	0.8	1.3	2.1	2.7	3.6	4.8
Debtors & Inventory	14.7	16.0	14.0	13.6	14.7	15.5	17.1	18.6	22.5	26.8	32.4
Intangibles	4.2	4.2	4.0	3.5	2.9	2.7	2.8	2.9	3.1	3.2	3.4
Other assets	0.2	0.9	0.0	0.0	0.2	0.5	0.5	0.5	0.5	0.5	0.5
Total Assets	21.8	23.1	19.9	19.1	19.5	21.7	27.4	36.5	42.2	48.3	55.5
Borrowings	1.9	2.8	2.1	2.3	2.0	2.0	2.5	2.7	3.3	4.1	5.0
Trade Creditors	4.5	4.6	4.9	4.6	4.6	4.2	5.0	4.9	5.9	7.2	8.9
Other Liabilities	3.2	3.0	3.7	3.8	3.7	4.2	4.8	5.4	6.5	8.0	9.9
Total Liabilities	9.6	10.3	10.7	10.7	10.4	10.4	12.2	13.0	15.8	19.2	23.8
NET ASSETS	12.2	12.8	9.2	8.4	9.2	11.3	15.2	23.4	26.5	29.0	31.7

Y/End	FY10A	FY11A	FY12A	FY13A	FY14A	FY15A	FY16F	FY17F	FY18F	FY19F	FY20F
Operating EBITDA	1.5	0.6	(0.2)	0.3	3.0	4.1	5.7	8.5	12.1	15.2	20.2
Interest & Tax	(0.6)	0.4	(1.6)	(0.6)	(0.7)	(0.7)	(1.3)	(1.3)	(2.5)	(3.2)	(4.2)
Working Cap.	(0.5)	(0.4)	(2.2)	(0.6)	1.6	1.1	(0.2)	0.7	1.2	1.0	1.0
Operating CF	0.5	0.7	(3.9)	(0.8)	3.9	4.5	4.3	7.8	10.8	13.1	17.0
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	(1.3)	(1.0)	(0.3)	(0.3)	(0.2)	(0.5)	(0.9)	(1.1)	(1.0)	(1.3)	(1.7)
Acquisitions	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)	(0.8)	(0.3)	(4.2)	(1.2)	3.7	4.0	3.4	6.7	9.8	11.8	15.3
Ord Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(8.7)	(11.2)	(15.1)
Equity, (Debt Paydown)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Cashflow	(0.8)	(0.3)	(4.2)	(1.2)	3.7	4.0	3.4	6.7	1.1	0.6	0.3

DIRECTORS

EXECUTIVES

	Shares (m)	Shares (m)
David Burton	100.8	
David Lawson	4.3	
Alan Anderson	0.1	
Warwick Freeman (CTO)		0.1
Total		105.3

eHealth (China)

eHealth (China + ROW)

DIVISIONAL SUMMARY (A\$m)

Y/End	FY10A	FY11A	FY12A	FY13A	FY14A	FY15A	FY16F	FY17F	FY18F	FY19F	FY20F
Revenue											
Sleep	9.7	9.3	8.4	8.1	9.3	9.4	10.3	11.3	12.5	13.7	14.4
Brain / Neuro	9.5	9.8	8.6	8.4	9.3	11.5	13.2	15.2	17.5	20.1	22.1
Blood Flow (DWL)	6.7	5.6	5.9	5.1	6.5	6.9	7.3	7.6	8.0	9.2	10.6
eHealth	0.0	0.0	0.0	0.0	0.0	0.0	0.2	1.0	5.0	10.0	20.0
Consumables/Services	6.5	6.2	5.0	5.4	5.9	5.7	6.5	7.5	8.7	10.0	11.5
Total	32.4	30.9	27.9	27.2	30.8	33.5	37.6	42.7	51.7	63.0	78.6
EBITDA											
Sleep	0.5	0.2	0.0	0.1	0.9	1.1	1.6	2.2	2.9	3.3	3.7
Brain / Neuro	0.4	0.2	0.0	0.1	0.9	1.4	2.0	3.0	4.1	4.9	5.7
Blood Flow (DWL)	0.3	0.1	0.0	0.1	0.6	0.8	1.1	1.5	1.9	2.2	2.7
eHealth	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	1.3	3.0	8.0
Consumables/Services	0.3	0.1	0.0	0.1	0.6	0.7	1.3	1.9	2.6	3.0	3.4
Other	0.0	0.0	0.0	0.0	0.0	0.0	-0.3	-0.3	-0.7	-1.2	-3.4
MILESTONE							0.0	0.0	0.0	0.0	0.0
Total	1.5	0.6	-0.2	0.3	3.0	4.1	5.7	8.5	12.1	15.2	20.2
	FY10A	FY11A	FY12A	FY13A	FY14A	FY15A	FY16F	FY17F	FY18F	FY19F	FY20F
Sleep	0.5	0.2	0.0	0.1	0.9	1.1	1.6	2.2	2.9	3.3	3.7
Brain	0.8	0.3	-0.1	0.2	1.5	2.2	3.1	4.5	6.0	7.1	8.4

Compumedics

Date: 20-Oct-15
Model Updated: 20-Oct-15

KEY RATIOS

Y/End	FY10A	FY11A	FY12A	FY13A	FY14A	FY15A	FY16F	FY17F	FY18F	FY19F	FY20F
EBITDA Margin (%)	4.7%	2.0%	-0.6%	1.3%	9.6%	12.2%	15.2%	19.8%	23.4%	24.2%	25.7%
NPAT Margin (%)	1.3%	0.3%	-10.1%	-5.5%	2.9%	5.9%	8.3%	14.0%	16.8%	17.7%	19.2%
ROE (%) y/e	3.4%	0.7%	-30.7%	-17.8%	9.9%	17.5%	20.7%	25.4%	32.8%	38.4%	47.5%
ROI (%) y/e	8.0%	-2.5%	-12.5%	-9.2%	15.6%	24.4%					
NTA per share (\$)	0.11	0.11	0.09	0.09	0.10	0.11	0.15	0.20	0.23	0.27	0.31
Eff Tax Rate (%)	0.0%	-111.0%	58.3%	16.1%	-6.5%	-2.0%	-15.0%	-15.0%	-20.0%	-20.0%	-20.0%
Interest Cover (x)	1.7	(0.9)	(2.5)	(2.1)	2.6	4.0	7.0	200.3			
Net Gearing (%)											

VALUATION PARAMETERS

Y/End	FY10A	FY11A	FY12A	FY13A	FY14A	FY15A	FY16F	FY17F	FY18F	FY19F	FY20F
EPS Adj (cps)	0.3	0.1	-1.7	-0.9	0.5	1.2	1.9	3.6	5.2	6.7	9.0
PE Adj (x)		636.4	-18.9	-36.1	60.6	27.9	17.6	9.2	6.3	4.9	3.7
Enterprise Value (\$m)	55.2	56.7	56.1	56.1	56.0	54.8	51.9	45.4	44.9	45.0	45.7
EV / EBITDA (x)	36.2	94.1	-359.3	164.1	18.9	13.4	9.1	5.4	3.7	3.0	2.3
EV / EBIT (x)	56.2	-160.5	-44.1	-64.7	35.4	20.4	12.1	6.4	4.2	3.3	2.4
Price / NTA		2.9	3.5	3.5	3.3	2.9	2.2	1.6	1.4	1.2	1.1
DPS (cps)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.2	6.7	9.0
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	15.8%	20.3%	27.3%
Franking (%)	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Free Cash / Share (c)	-0.5	-0.2	-2.5	-0.7	2.2	2.4	2.0	4.0	5.9	7.1	9.2
Price / FCF PS (x)	-71.3	-175.9	-13.1	-46.9	14.9	13.8	16.2	8.2	5.6	4.7	3.6

DCF VALUATION & SENSITIVITY

PV of Cashflows 2016 to 2024	58	Risk Free Rate	4.0%
		Equity Risk Premium	8.5%
PV of Term Year Cashflow	253	Equity Beta	1.0
		Cost of Equity	12.5%
		After Tax WACC	12.9%
Less OEI at FY'15 y/e	0		
(Net Debt) or Cash	(0)	Terminal Growth	3.0%
PV of Equity	133		
PV of Equity per share	\$ 0.80		

MAJOR SHAREHOLDERS

	%		%
D&DJ Burton Holdings Pty Ltd	60.4%	Beijing Bestmed Tech	2.9%
Teijin Ltd	5.0%		
Armco Barriers Pty Ltd	3.6%	Top 20	72%

GROWTH PROFILE (YoY)

Y/End	FY11A	FY12A	FY13A	FY14A	FY15A	FY16F	FY17F	FY18F	FY19F	FY20F
Sales (\$m)	-5%	-10%	-3%	14%	9%	12%	14%	21%	22%	25%
EBITDA inc EAT (\$m)	-60%	-126%	-319%	768%	37%	40%	49%	43%	26%	32%
EBIT (\$m)	-136%	260%	-32%	-282%	70%	60%	64%	51%	29%	36%
NPAT (\$m)	-80%	-3468%	-47%	-161%	117%	59%	90%	46%	29%	35%
EPS (cps)	-80%	-3468%	-48%	-160%	117%	59%	90%	46%	29%	35%
DPS (cps)	0%	0%	0%	0%	0%	0%	0%	0%	29%	35%

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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.

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