

# SOMNOMED LIMITED

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## Appendix 4D and Half-Year Financial Report

31 December 2022

This half-year report is for the six months ended 31 December 2022. The previous corresponding period is the half-year ended 31 December 2021.

The information in this report should be read in conjunction with the most recent annual financial report.

### Results for announcement to the market

Revenues from sale of goods and services, net of discounts	up	6,026,893 17.8%	to	39,961,036
Revenues from ordinary activities	up	5,743,753 16.8%	to	39,961,481
Operating profit before corporate and business development expenses, non-cash items and income tax	up	1,019,921 18.5%	to	6,541,350
Loss from ordinary activities after tax attributable to members	down	(797,116)	to	(3,744,894)
Net Loss for the period attributable to members	down	(797,116)	to	(3,744,894)
<b>Dividends</b>		Amount per security		Franked amount per security
Final dividend		- ¢		- ¢
Interim dividend		- ¢		- ¢
Record date for determining entitlements to the dividend		Not applicable		
Brief explanation of any of the figures reported above:				
Refer to comments in the attached Directors' Report.				
<b>NTA Backing</b>		31 December 2022		31 December 2021
Net tangible asset backing per share		5.7 cents		12.5 cents

## DIRECTORS' REPORT

Your directors submit the financial report of the consolidated entity consisting of SomnoMed Limited and the entities it controlled ('the consolidated entity') for the half-year ended 31 December 2022.

### Directors

The names of directors who held office during or since the end of the half-year:

Guy Russo  
Neil Verdal-Austin  
Amrita Blickstead  
Karen Borg  
Hilton Brett  
Hamish Corlett  
Michael Gordon

### Overview

- Revenue of \$40.0 million for 1H FY23 (1H FY22: \$33.9 million), +17.7% (+17.1% in constant currency) versus the previous corresponding period (pcp) as SomnoMed continues to demonstrate strong growth in the global oral devices market
- European revenue growth was strong in 1H FY23 and accelerated towards the end of the half, while APAC performed in-line with expectations
- North America performed below our expectations for the half despite growing +28.4% (18.0% in constant currency). Growth was impacted by a range of competition and supply chain challenges towards the end of the half
- Given these increased challenges in North America, SomnoMed revised its revenue growth guidance for FY23 to between 15%-20%, while the FY23 EBITDA<sup>1</sup> guidance of \$2 million+, remains unchanged
- Product (MAS) gross margin of 72% (1H FY22: 69%)
- EBITDA<sup>1</sup> increased to \$0.8 million (1H FY22: \$0.2 million), despite investment in sales & marketing initiatives and the continued development of the connected-device technology
- Net operating cash outflow for the period of \$3.4 million (1H FY22: net operating cash inflow of \$0.0 million)
- Cash of \$16.9 million as at 31 December 2022, including \$6.0 million of the final debt funding drawn down during 1H FY23 (total drawn debt of \$16.8 million), leading to a net cash position of \$100k
- Total patients treated worldwide now exceeds 760,000

### Rest Assure® Update

- Rest Assure® is an in-built technology-enabled oral appliance for the treatment of sleep-related breathing disorders and obstructive sleep apnea. Rest Assure® is expected to drive prescriptions, increased reimbursement, and ultimately greater share of treatment prescriptions for COAT™ versus CPAP
- The majority of tests and documentation required by the regulatory authorities for commercial approval have now been completed. A small number of validation and verification tests required by regulatory authorities remain outstanding, and these are expected to be completed in Q3 FY23. Once this final testing and necessary documentation required for regulatory authorities is complete, submissions (where required) will be filed in Q3 FY23
- Rest Assure® will be commercialised once these approvals are received

<sup>1</sup> EBITDA does not include share/option expenses, unrealised forex gain/(loss) and discontinued operations

Commenting on the results, SomnoMed's Managing Director, Mr Neil Verdal-Austin said: "SomnoMed delivered revenue of \$40 million in the first half of the 2023 financial year, up over 17% on the prior corresponding period, as SomnoMed continues to strengthen its position in the global oral devices market."

"Our vision of providing an effective long-term treatment for patients who suffer from the effects of OSA is unchanged. The Company remains focused on increasing the awareness of COAT™ for the treatment of OSA, continuing the development of our technology-enabled oral appliance Rest Assure®, all while ensuring we deliver strong financial outcomes for our shareholders."

"Operationally, we continued to see positive momentum across our key trading markets. However, SomnoMed's performance in North America was impacted by increased competition, and staff shortage and logistics difficulties at the end of the half. Consequently, the FY23 revenue growth guidance has been revised to between 15-20%, with no change to the EBITDA<sup>1</sup> guidance of \$2 million+."

"Despite these challenges, we continued to invest in the business, both in terms of new technology development and business operations, to ensure that SomnoMed continues to grow market share within the broader sleep apnea treatment market. Indeed, Europe produced a fantastic result this half with our central manufacturing team making advances in all digital processes and documentation in readiness for the Rest Assure® full launch once approvals have been received."

"We expect that the submission process for regulatory approval for Rest Assure® across US, Europe and Australia will be ready to be filed in Q3 FY23 and once approved, SomnoMed will be in a position to move quickly to the commercialisation phase."

## Financial Review

Revenue of \$40.0 million increased +17.7% versus pcp reflecting SomnoMed's continued growth in the global oral devices market, despite challenges emerging in the North American market by the end of the half. Europe performed strongly as the half progressed, benefiting from good patient demand and positive reimbursement trends. Revenue growth in APAC was steady and in-line with expectations, although non-device revenue was impacted by a shortage of SOMTabs (SomnoMed's proprietary cleaning tablets) due to a global shortage of raw materials.

SomnoMed generated EBITDA<sup>1</sup> for the first half of \$0.8 million (1H FY22: \$0.2 million). The increase in EBITDA<sup>1</sup> was despite investment into global sales and marketing initiatives, including the expansion of marketing and sales force networks and an increase in medically targeted advertisements and marketing communications.

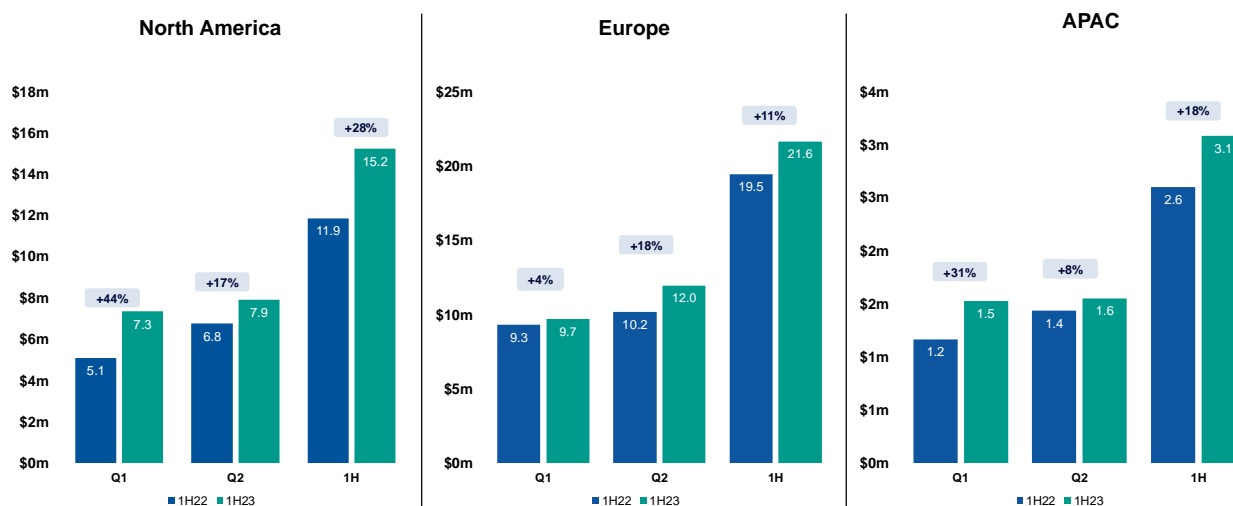
Net operating cash outflow for the period of \$3.4 million (1H FY22: net operating cash inflow of \$0.0 million) was primarily due to the expenditure on the development of the connected technology, Rest Assure®, and One Platform initiatives.

SomnoMed's balance sheet shows cash of \$16.9 million and drawn debt of \$16.8 million as at 31 December 2022, leading to a net cash position of \$0.1 million. This has allowed the Company to focus on enhancements to its product suite and technology innovation, in order to improve the customer experience, drive market penetration and ultimately set the company for a strong future.

Investment in technology development continues with total investment of \$2.7 million for 1H FY23.

<sup>1</sup> EBITDA does not include share/option expenses, unrealised forex gain/(loss) and discontinued operations

## Total regional revenues by quarter



## Operational Review

SomnoMed's retains a very strong position within the global OSA market. There remains significant potential for the Company to make further market share gains by providing an alternative to the traditional default CPAP recommendations by sleep physicians.

SomnoMed remains "treatment focused" in its approach and continues to provide a best in class, superior comfort, "fit right first time" and durable oral appliance for the treatment of OSA. The Company continues to enjoy tremendous customer and medical sector engagement, which in turn has helped to drive growth and further acceptance of COAT™.

Revenue (A\$000's)	1H FY23	1H FY22	% Change	% Change
			Actual	Constant Currency
North America	15,243	11,867	+28.4%	+18.0%
Europe	21,636	19,464	+11.2%	+16.2%
APAC	3,082	2,602	+18.4%	+19.6%
Total group revenue	39,961	33,933	+17.7%	+17.1%

### North America

Revenue for the half was \$15.2 million, up +28% versus pcp (+18% in constant currency terms). SomnoMed experienced a challenging end to the half with increased competition, somewhat exacerbated by rising inflation impacting some consumer spending. SomnoMed expects that this change in spending and consumers delaying non-critical medical treatments is directly linked to the general economic pressures being experienced across the region and should be temporary. North America was also impacted towards the end of the half by a range of supply chain issues which temporarily opened the door to lower priced competitors, including logistic staff unavailability in the wake of the COVID-19 pandemic. These issues have largely been resolved by mid-February.

SomnoMed continues to monitor the competitive activity and is optimising its response, asserting the superior fit and long-term therapeutical benefits of its products, in order to increase sales and margins in the region.

### Europe

Revenue from European operations increased +11% versus pcp (+16% in constant currency terms), driven by performance in Germany, France, the Netherlands and Sweden. The revenue uplift was driven by strong consumer demand and positive reimbursement trends. Europe is benefiting from patients with mild and moderate OSA becoming increasingly comfortable with the benefits of COAT™ technology.

Europe is an important region for SomnoMed. The Company will continue to focus on increasing sales and marketing efforts in order to ensure ongoing strong product take-up and growth. Product development and technological innovation remains key to the continued success in the region.

#### Asia Pacific

Asia Pacific revenues increased +18% versus pcp to \$3.1 million, driven by SomnoMed's continued focus on its clinical education program and its investment in sales and marketing initiatives to support future growth. A global raw materials supply shortage impacting SOMTabs, SomnoMed's proprietary cleaning tablets, limited the growth achieved during the half. SomnoMed believes that this is a temporary shortage and should be rectified in 2H FY23.

#### Outlook

The Company remains optimistic about trading activity levels and the outlook for the second half of FY23. SomnoMed is committed to its technological transformation and its FY23 guidance:

- Revenue growth of between 15%-20%
- EBITDA<sup>1</sup> of at least \$2 million
- CAPEX investment of c.\$7 million of which technology innovation spend expected to be c.\$3 million

#### Principal Activity

There were no significant changes in the nature of the Consolidated Entity's principal activities during the half year.

#### Operating Results

The net loss after income tax expense for the half year ended 31 December 2022 from continuing operations was (\$3,704,031) (December 2021: \$ 2,952,533). The loss from discontinued operation of Renew Sleep Solutions (RSS) was (\$40,863) (December 2021: gain \$4,755).

#### Dividends Paid or Recommended

There is no dividend paid, declared or recommended.

#### Significant Changes in State of Affairs

Other than as stated above and in the accompanying financial report, there were no significant changes in the state of affairs of the Consolidated Entity during the reporting period.

#### After Reporting Date Events

The directors are not aware of any matter or circumstance that has arisen since the end of the half year to the date of this report that has significantly affected or may affect,

- (i) The operations of the company and the entities that it controls,
- (ii) The results of those operations,
- (iii) The state of affairs of the Consolidated Entity in subsequent years.

#### Future Developments

The Consolidated Entity will continue to produce and sell devices for the oral treatment of sleep related disorders in Australia and overseas.

In early 2023, SomnoMed introduced its first ever in-built technology-enabled oral appliance (Rest Assure<sup>®</sup>), to address the lack of overnight monitoring in continuous open airway therapy (COAT<sup>™</sup>), which has been a major barrier to prescription and reimbursement rates to date.

<sup>1</sup> EBITDA does not include share/option expenses, unrealised forex gain/(loss) and discontinued operations

## Auditor's Independence Declaration

The auditor's independence declaration for the half year ended 31st December 2022 is set out on page 21 of these half yearly accounts.

Signed in accordance with a resolution of the Board of Directors.

A handwritten signature in black ink, appearing to read 'Guy Russo', written in a cursive style.

Guy Russo (Chairman)

Dated this 22<sup>nd</sup> February 2023

## Contents

	<b>Page</b>
Financial report	
Consolidated statement of profit or loss and other comprehensive income	7
Consolidated statement of financial position	8
Consolidated statement of changes in equity	9
Consolidated statement of cash flows	10
Notes to the financial statements	11
Directors' declaration	19
Independent auditor's review report to the members of SomnoMed Limited	21
Auditor's declaration of independence	23

## General information

The financial report covers SomnoMed Limited as a consolidated entity consisting of SomnoMed Limited and the entities it controlled during the period. The financial report is presented in Australian dollars, which is SomnoMed Limited's functional and presentation currency.

The financial report consists of the financial statements, notes to the financial statements and the directors' declaration.

SomnoMed Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business are:

Level 3  
20 Clarke Street  
Crows Nest NSW 2065

A description of the nature of the consolidated entity's operations and its principal activities is included in the directors' report, which is not part of the financial report.

The financial report was authorised for issue, in accordance with a resolution of directors, on 22<sup>nd</sup> February 2023.

**SomnoMed Limited**  
**Consolidated Statement of Profit or Loss and Other Comprehensive Income**  
**For the half-year ended 31 December 2022**

	Note	31.12.22 \$	31.12.21 \$
<b>Continuing operations</b>			
Revenue from sale of goods and services, net of discounts	2	39,961,036	33,934,143
Cost of sales		(14,793,525)	(13,002,504)
Gross margin		25,167,511	20,931,639
Sales and marketing expenses		(11,973,242)	(9,476,706)
Administrative expenses		(6,652,919)	(5,933,504)
Operating profit before corporate, research and business development expenses, other items of income and expenses and income tax		6,541,350	5,521,429
Corporate, research and business development expenses		(5,738,912)	(5,603,109)
Depreciation and amortisation	3	(2,360,412)	(1,892,244)
Share-based payments		(517,675)	(640,694)
Interest income	2	445	349
Government grants and other income	2	-	283,236
Interest expense		(505,566)	(198,942)
Unrealised foreign exchange (loss)/gain		(300,070)	197,382
<b>Loss before income tax</b>		<b>(2,880,840)</b>	<b>(2,332,593)</b>
Income tax expense attributable to operating profit		(823,191)	(619,940)
<b>Loss after income tax for the half-year from continuing operations</b>		<b>(3,704,031)</b>	<b>(2,952,533)</b>
<b>Discontinued operation</b>			
(Loss)/profit from discontinued operation	5	(40,863)	4,755
<b>Net (Loss) for the Group</b>		<b>(3,744,894)</b>	<b>(2,947,778)</b>
Other comprehensive loss			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign exchange translation difference for foreign operations		454,272	(825,980)
Other comprehensive profit/(loss) for the half-year, net of tax		454,272	(825,980)
Total comprehensive loss for the half-year attributable to the owners of SomnoMed Limited		<b>(3,290,622)</b>	<b>(3,773,758)</b>
<b>Earnings per share</b>			
Basic earnings per share (cents)		(4.77)	(3.75)
Diluted earnings per share (cents)		(4.53)	(3.75)
<b>Earnings per share – continuing operations</b>			
Basic earnings per share (cents)		(4.71)	(3.76)
Diluted earnings per share (cents)		(4.48)	(3.76)
<b>Earnings per share – discontinued operation</b>			
Basic earnings per share (cents)		(0.05)	0.01
Diluted earnings per share (cents)		(0.05)	0.01

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.



**SomnoMed Limited**  
**Consolidated Statement of Financial Position**  
**As at 31 December 2022**

	Note	31.12.22 \$	30.06.22 \$
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents		16,874,597	15,644,331
Trade and other receivables		11,370,207	11,313,650
Inventories		3,926,714	3,089,324
Lease receivables		315,379	267,953
<b>Total Current Assets</b>		<u>32,486,897</u>	<u>30,315,258</u>
<b>Non-Current Assets</b>			
Trade and other receivables		215,225	264,004
Property, plant and equipment		5,783,435	4,440,101
Intangible assets	6	17,347,963	15,447,516
Deferred tax assets		2,952,997	2,950,977
Right-of-use assets	8	5,862,972	4,675,691
<b>Total Non-Current Assets</b>		<u>32,162,592</u>	<u>27,778,289</u>
<b>Total Assets</b>		<u>64,649,489</u>	<u>58,093,547</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables		11,688,763	12,854,260
Borrowings	7	250,741	4,877,475
Lease liabilities	9	2,040,988	1,779,819
Provisions		3,188,906	3,152,980
Current tax liabilities		535,988	1,110,374
<b>Total Current Liabilities</b>		<u>17,705,386</u>	<u>23,774,908</u>
<b>Non-Current Liabilities</b>			
Borrowings	7	16,509,980	2,013,461
Lease liabilities	9	4,174,341	3,339,572
Provisions		1,244,494	1,177,371
<b>Total Non-Current Liabilities</b>		<u>21,928,815</u>	<u>6,530,404</u>
<b>Total Liabilities</b>		<u>39,634,201</u>	<u>30,305,312</u>
<b>Net Assets</b>		<u>25,015,288</u>	<u>27,788,235</u>
<b>EQUITY</b>			
Issued capital	4	74,271,419	74,271,419
Reserves		8,784,654	7,812,707
Accumulated losses		(58,040,785)	(54,295,891)
<b>Total Equity</b>		<u>25,015,288</u>	<u>27,788,235</u>

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

**SomnoMed Limited**  
**Consolidated Statement of Changes in Equity**  
**For the half-year ended 31 December 2022**

	Issued Capital	Reserves	Accumulated Losses	Owners of Parent	Total
	\$	\$	\$	\$	\$
Balance at 1 July 2022	74,271,419	7,812,707	(54,295,891)	27,788,235	27,788,235
Loss after income tax for the half-year	-	-	(3,744,894)	(3,744,894)	(3,744,894)
Other comprehensive income for the half-year, net of tax	-	454,272	-	454,272	454,272
Total comprehensive Loss for the half-year	-	454,272	(3,744,894)	(3,290,622)	(3,290,622)
<i>Transactions with owners in their capacity as owners:</i>					
Share option reserve on recognition of remuneration options	-	517,675	-	517,675	517,675
Shares issued during the period*	-	-	-	-	-
Share issuance costs	-	-	-	-	-
Balance at 31 December 2022	74,271,419	8,784,654	(58,040,785)	25,015,288	25,015,288

	Issued Capital	Reserves	Accumulated Losses	Owners of Parent	Total
	\$	\$	\$	\$	\$
Balance at 1 July 2021	74,256,794	7,760,420	(49,858,913)	32,158,301	32,158,301
Loss after income tax for the half-year	-	-	(2,947,778)	(2,947,778)	(2,947,778)
Other comprehensive loss for the half-year, net of tax	-	(825,980)	-	(825,980)	(825,980)
Total comprehensive income/(loss) for the half-year	-	(825,980)	(2,947,778)	(3,773,758)	(3,773,758)
<i>Transactions with owners in their capacity as owners:</i>					
Share option reserve on recognition of remuneration options	-	640,694	-	640,694	640,694
Shares issued during the period*	14,385	-	-	14,385	14,385
Capital reserve adjustment	-	-	(10)	(10)	(10)
Balance at 31 December 2021	74,271,179	7,575,134	(52,806,701)	29,039,612	29,039,612

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

\* Shares issued during the period corresponds to receipts of monies from the Employee Share Trust for previously issued shares.

**SomnoMed Limited**  
**Consolidated Statement of Cash Flows**  
**For the half-year ended 31 December 2022**

	<b>31.12.22</b>	<b>31.12.21</b>
	<b>\$</b>	<b>\$</b>
<b>Cash flows from operating activities</b>		
Receipts from customers (inclusive of GST)	39,643,592	34,879,630
Payments to suppliers and employees (inclusive of GST)	(41,357,989)	(34,555,244)
Interest received	5,791	112,331
Interest paid	(493,799)	(259,741)
Income tax paid	(1,200,743)	(170,568)
Net cash (outflow)/inflow from operating activities	<u>(3,403,148)</u>	<u>6,408</u>
<b>Cash flows from investing activities</b>		
Payments for intangible assets	(2,252,664)	(2,534,964)
Payments for property, plant and equipment	(1,848,867)	(434,572)
Proceeds from term deposits	-	316,565
Net cash outflow from investing activities	<u>(4,101,531)</u>	<u>(2,652,971)</u>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	15,122,646	-
Repayment of borrowings	(5,345,000)	-
Payment of finance lease	(1,227,914)	(1,075,251)
Proceeds from issue of shares	-	14,385
Net cash inflow/(outflow) from financing activities	<u>8,549,732</u>	<u>(1,060,866)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>1,045,053</b>	<b>(3,707,428)</b>
Cash at beginning of period	15,644,331	21,109,841
Effects of exchange rate adjustment on cash and cash equivalents	185,213	169,019
<b>Cash at end of period</b>	<b><u>16,874,597</u></b>	<b><u>17,571,432</u></b>

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

**Note 1. Significant accounting policies**

These general purpose financial statements for the interim half-year reporting period ended 31 December 2022 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2021 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

**New, revised or amending Accounting Standards and Interpretations adopted**

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

	<b>Consolidated</b>	
	<b>31.12.22</b>	<b>31.12.21</b>
	<b>\$</b>	<b>\$</b>
<b>Note 2. Revenue and other income</b>		
Operating activities		
Revenue from sale of goods and services, net of discounts	39,961,036	33,934,143
Interest income	445	349
Government grants*	-	282,592
Other income	-	644
<b>Total revenue and other income</b>	<b>39,961,481</b>	<b>34,217,728</b>
Government Grants – Europe	-	-
Government Grants – Asia Pacific	-	282,592
<b>Subtotal government grants*</b>	<b>-</b>	<b>282,592</b>
Other income	-	644
<b>Grand total government grants and other income</b>	<b>-</b>	<b>283,236</b>

\*There are no unfulfilled conditions or other contingencies attached to the above-mentioned government grants.

All amounts were received, and details disclosed in the previous exercises. There were no such payments received in the first half of FY23.

**SomnoMed Limited**  
**Notes to the financial statements**  
**31 December 2022**

	<b>31.12.22</b>	<b>31.12.21</b>
	<b>\$</b>	<b>\$</b>
<b>Note 3. Loss before income tax for the year</b>		
Profit before income tax includes the following specific expenses:		
Operating lease rentals (short term leases and low value leases)	15,849	16,771
Employee benefits expense	19,040,645	13,423,929
Research and development expenditure	359,042	559,794
Depreciation – Property, plant and equipment	669,035	564,169
Amortisation of intellectual property	554,807	353,880
Amortisation – AASB16	1,136,570	974,195
Subtotal depreciation and amortisation	<u>2,360,412</u>	<u>1,892,244</u>

	<b>31.12.22</b>	<b>30.06.22</b>
	<b>\$</b>	<b>\$</b>
<b>Note 4. Share capital</b>		
Issued and fully paid ordinary shares		
82,759,315 (30 June 2021: 82,759,315) ordinary shares		
Balance of issued capital at the beginning of period	84,002,809	84,002,809
Shares issued during period:	-	-
Less issue costs	-	-
Balance of issued capital at end of period	<u>84,002,809</u>	<u>84,002,809</u>
Less shares issued but nil recorded in accounts:		
- 1,830,000 shares (2021: 1,842,500) issued at \$1.17	(2,141,100)	(2,141,100)
- 150,000 shares (2021: 150,000) issued at \$1.18	(177,000)	(177,000)
- 20,000 shares (2021: 20,000) re-issued at \$1.64	(32,800)	(32,800)
- 200,000 shares (2021: 200,000) issued at \$1.67	(334,000)	(334,000)
- 20,000 shares (2021: 20,000) re-issued at \$1.79	(35,800)	(35,800)
- 456,000 shares (2021: 456,000) re-issued at \$1.87	(852,720)	(852,720)
- 350,000 shares (2021: 500,000) issued at \$2.09	(731,500)	(731,500)
- 664,000 shares (2021: 664,000) re-issued at \$2.184	(1,450,176)	(1,450,176)
- 493,000 shares (2021: 493,000) issued at \$2.40	(1,183,200)	(1,183,200)
- 12,500 shares (2021: 12,500) issued at \$3.44	(43,000)	(43,000)
- 3,000 shares (2021: 3,000) issued at \$3.61	(10,830)	(10,830)
Total advances to executives to acquire shares in the Company	<u>(6,992,126)</u>	<u>(6,992,366)</u>
Cancellation and re-issue of units within Employee Share Trust*	<u>(2,739,264)</u>	<u>(2,739,264)</u>
Issued share capital recorded in the Company accounts	<u>74,271,419</u>	<u>74,271,179</u>

**Note 4. Share capital (continued)**

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. At shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

At 31 December 2022 there were 8,795,500 (30 June 2022: 8,795,500) unissued ordinary shares for which options were outstanding (including 4,198,500 issued ordinary shares are treated as options in these accounts (30 June 2022: 4,198,500)).

\*In prior years ordinary shares were issued to the Company's Employee Share Trust on behalf of management of the Company at issue prices up to \$3.61 per share. These shares were financed by non-recourse loans and have been treated as options in the Company's accounts. In June 2020 share units issued by the EST in 2016 at \$3.44 and in 2017 at \$3.61 to existing employees were cancelled and an identical number of units were reissued at \$1.17 to those employees with extended vesting conditions. The amount payable by the EST to the Company as non-recourse loans relating to those prior issues at \$3.44 and \$3.61 per share was recorded as being non recoverable and a new loan at the lesser amount of \$1.17 per share is reflected in these accounts. The additional share option expense incurred in relation to the issue of units at \$1.17 will be brought to account over the revised vesting periods and no further share option expense will be brought to account for the issues at \$3.44 and \$3.61 per share.

**Note 5. Segment Operation**

**Primary Reporting – Business Segments**

The Consolidated Entity produces and sells devices for the oral treatment of sleep related disorders primarily in the Asia Pacific region, North America and Europe.

The Consolidated Entity has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Consolidated Entity is managed primarily on the basis of geographical segments and the operating segments are therefore determined on the same basis. SomnoMed's operations during the period related to the production and sale of products treating sleep disordered breathing, which is the only business segment.

**Basis of accounting for purposes of reporting by operating segments**

*Accounting policies adopted*

Unless stated otherwise, all amounts reported to the Board of Directors as the chief operating decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Consolidated Entity.

*Unallocated items*

The following items of revenue and expenses are not allocated to operating segments as they are not considered part of the core operations of any segment:

- derivatives and foreign exchange gains and losses; and
- corporate, research and business development expenses;

**SomnoMed Limited**  
**Notes to the financial statements**  
**31 December 2022**

**Note 5. Segment Operation (continued)**

Information about reportable segments

<b>Geographical location:</b> <b>2022</b>	<b>North America</b> <b>\$</b>	<b>Europe</b> <b>\$</b>	<b>Asia Pacific</b> <b>\$</b>	<b>CORE</b> <b>\$</b>	<b>RSS</b> <b>\$</b>	<b>GROUP</b> <b>\$</b>
Total sales/billing revenue	15,278,017	22,399,208	8,961,834	46,639,059	-	46,639,059
Intersegment eliminations	(34,456)	(763,568)	(5,879,999)	(6,678,023)	-	(6,678,023)
<b>External sales revenue</b>	<b>15,243,561</b>	<b>21,635,640</b>	<b>3,081,835</b>	<b>39,961,036</b>	<b>-</b>	<b>39,961,036</b>
<b>Segment net profit before tax</b>	<b>1,790,391</b>	<b>3,924,777</b>	<b>526,113</b>	<b>6,241,281</b>	<b>-</b>	<b>6,241,281</b>
Unallocated expense items	-	-	(6,256,588)	(6,256,588)	(43,964)	(6,300,552)
Depreciation and amortisation	(339,416)	(767,441)	(1,253,555)	(2,360,412)	-	(2,360,412)
Other income	-	-	-	-	-	-
Interest income	-	284	161	445	5,351	5,796
Interest expense	(54,116)	(72,479)	(378,971)	(505,566)	(2,010)	(507,576)
<b>(Loss)/profit before tax</b>	<b>1,396,859</b>	<b>3,085,141</b>	<b>(7,362,840)</b>	<b>(2,880,840)</b>	<b>(40,623)</b>	<b>(2,921,463)</b>
Income tax expense	(362,674)	(394,394)	(66,123)	(823,191)	(240)	(823,431)
<b>(Loss)/profit after tax</b>	<b>1,034,185</b>	<b>2,690,747</b>	<b>(7,428,963)</b>	<b>(3,704,031)</b>	<b>(40,863)</b>	<b>(3,744,894)</b>

<b>Total Assets</b>	<b>10,933,107</b>	<b>23,508,121</b>	<b>29,815,016</b>	<b>64,256,244</b>	<b>393,245</b>	<b>64,649,489</b>
<b>Total Liabilities</b>	<b>4,748,142</b>	<b>11,696,630</b>	<b>22,720,631</b>	<b>39,165,403</b>	<b>468,797</b>	<b>39,634,200</b>

<b>Geographical location:</b> <b>2021</b>	<b>North America</b> <b>\$</b>	<b>Europe</b> <b>\$</b>	<b>Asia Pacific</b> <b>\$</b>	<b>CORE</b> <b>\$</b>	<b>RSS</b> <b>\$</b>	<b>GROUP</b> <b>\$</b>
Total sales/billing revenue	11,948,425	20,491,403	7,490,153	39,929,981	-	39,929,981
Intersegment eliminations	(81,145)	(1,027,022)	(4,887,671)	(5,995,838)	-	(5,995,838)
<b>External sales revenue</b>	<b>11,867,280</b>	<b>19,464,381</b>	<b>2,602,482</b>	<b>33,934,143</b>	<b>-</b>	<b>33,934,143</b>
<b>Segment net profit before tax</b>	<b>1,249,367</b>	<b>4,081,573</b>	<b>387,871</b>	<b>5,718,811</b>	<b>-</b>	<b>5,718,811</b>
Unallocated expense items	-	-	(6,243,803)	(6,243,803)	9,004	(6,234,799)
Depreciation and amortisation	(320,094)	(668,101)	(904,049)	(1,892,244)	-	(1,892,244)
Other income	644	-	282,592	283,236	-	283,236
Interest income	-	236	113	349	7,826	8,175
Interest expense	(63,163)	(67,551)	(68,228)	(198,942)	(12,075)	(211,017)
<b>(Loss)/profit before tax</b>	<b>866,754</b>	<b>3,346,157</b>	<b>(6,545,504)</b>	<b>(2,332,593)</b>	<b>4,755</b>	<b>(2,327,838)</b>
Income tax expense	(169,656)	(303,578)	(146,706)	(619,940)	-	(619,940)
<b>(Loss)/profit after tax</b>	<b>697,098</b>	<b>3,042,579</b>	<b>(6,692,210)</b>	<b>(2,952,533)</b>	<b>4,755</b>	<b>(2,947,778)</b>

<b>Total Assets</b>	<b>9,854,328</b>	<b>22,809,409</b>	<b>21,175,087</b>	<b>53,838,824</b>	<b>340,690</b>	<b>54,179,514</b>
<b>Total Liabilities</b>	<b>4,534,972</b>	<b>12,280,181</b>	<b>7,682,878</b>	<b>24,498,031</b>	<b>641,871</b>	<b>25,139,902</b>

**SomnoMed Limited**  
**Notes to the financial statements**  
**31 December 2022**

**31.12.22**      **30.06.22**  
**\$**                      **\$**

**Note 6. Intangible assets**

Patents and trademarks – at cost	1,848,855	1,820,152
Accumulated amortisation	(1,404,581)	(1,359,328)
	<u>444,274</u>	<u>460,824</u>
Product development expenditure capitalised	9,006,732	7,317,062
Accumulated amortisation	(822,983)	(697,109)
	<u>8,183,749</u>	<u>6,619,953</u>
Software	4,610,273	4,043,521
Accumulated amortisation	(2,120,589)	(1,714,756)
	<u>2,489,684</u>	<u>2,328,765</u>
Goodwill	6,230,256	6,037,974
	<u><b>17,347,963</b></u>	<u><b>15,447,516</b></u>

**Movements in patents and trademarks**

Balance at beginning of reporting period	460,824	614,625
Additions	-	-
Amortisation expense	(24,206)	(142,928)
FX impact	7,656	(10,873)
Balance at end of reporting period	<u>444,274</u>	<u>460,824</u>

**Movements in product development expenditure capitalised**

Balance at beginning of reporting period	6,619,953	1,253,709
Additions	1,689,670	5,475,151
Amortisation expense	(125,874)	(108,907)
Balance at end of reporting period	<u>8,183,749</u>	<u>6,619,953</u>

**Movements in software**

Balance at beginning of reporting period	2,328,765	452,316
Additions	562,994	2,304,922
Amortisation expense	(404,727)	(440,020)
FX impact	2,652	11,547
Balance at end of reporting period	<u>2,489,684</u>	<u>2,328,765</u>

**Movements in goodwill**

Balance at beginning of reporting period	6,037,974	6,259,968
FX impact	192,282	(221,994)
Balance at end of reporting period	<u>6,230,256</u>	<u>6,037,974</u>

Intangible assets, other than goodwill, have finite useful lives. The current amortisation charges for intangible assets are included under depreciation and amortisation expenses per the consolidated statement of profit or loss and other comprehensive income. Goodwill has an indefinite useful life.

Goodwill is allocated to cash generating units, which are the separate legal entities.



**SomnoMed Limited**  
**Notes to the financial statements**  
**31 December 2022**

	<b>31.12.22</b>	<b>30.06.22</b>
	<b>\$</b>	<b>\$</b>
<b>Note 7. Borrowings</b>		
Current borrowings	250,741	4,877,475
Non-current borrowings	16,509,980	2,013,461
	<u>16,760,721</u>	<u>6,890,936</u>

*HSBC credit facility (Commercial Borrowing)*

- In June 2019, SomnoMed Limited secured a EUR 3 million (A\$4.8 million) credit facility, in the form of an overdraft facility, with HSBC France, Amsterdam Branch. The facility was fully repaid by SomnoMed on 21st July 2022.

*Unsecured loan facilities (Government Borrowings)*

- In March 2020, SomnoMed AG (Switzerland) secured a CHF 0.5 million (A\$0.756 million) Government-backed unsecured loan facility with Credit Suisse (maturity of 5 years). The interest payable was at 0.50% per annum. This loan was repaid on 15th August-22.
- In May 2020, SomnoMed France SAS (France) secured a EUR 0.515 million (A\$0.816 million) Government-backed unsecured loan facility with Société Générale. The interest payable is at 0.5% per annum in the first year (after a grace period of 12 months. Maturity of 5 years). This loan expires on 20 May 2026;
- In June 2020, SomnoMed Germany GmbH (Germany) secured a EUR 0.5 million (A\$0.792 million) Government-backed unsecured loan facility with Commerzbank (maturity of up to 6 years). The interest payable is 3% per annum. This loan expires on 30 June 2030.

*Epsilon direct lending loan facility (Commercial Borrowing)*

- On 25th July 2022, SomnoMed Limited entered into a A\$16 million debt facility with Epsilon Direct Lending. The facility, which is supported by a first ranking general security interest, is for a term of 3 years, with no amortisation payments. SomnoMed has fully drawn A\$16 million under the facility. Interest payable is calculated quarterly at BBSW, plus a 9% margin.

**SomnoMed Limited**  
**Notes to the financial statements**  
**31 December 2022**

<b>Note 8. Right-of-use assets</b>	<b>31.12.22</b>	<b>30.06.22</b>
	<b>\$</b>	<b>\$</b>
Right-of-use assets - non-current	5,862,972	4,675,691
	<u>5,862,972</u>	<u>4,675,691</u>
Land and buildings - right-of-use	9,882,575	7,773,518
Lease modifications*	-	129,128
Less: Accumulated depreciation	(4,821,018)	(4,044,483)
	<u>5,061,557</u>	<u>3,858,163</u>
Plant and equipment - right-of-use	168,332	168,332
Lease modifications*	-	-
Less: Accumulated depreciation	(124,929)	(110,162)
	<u>43,403</u>	<u>58,170</u>
Vehicles - right-of-use	1,931,853	1,717,060
Lease modifications*	-	-
Less: Accumulated depreciation	(1,173,841)	(957,702)
	<u>758,012</u>	<u>759,358</u>

'Land and buildings' include offices utilised as administration offices, laboratories and also the lease for the global manufacturing site. 'Plant and equipment' are comprised mostly of leased printers and, to a smaller extent, intra-oral scanners. 'Vehicles' relate to leased cars to sales and administration staff.

\*Lease modifications for surrender of leases, early terminations and changes to lease terms.

Balance at the beginning of the period	4,675,691	5,615,740
Additions	2,323,851	881,410
Depreciation expense	(1,136,570)	(1,950,587)
Lease modifications*	-	129,128
Balance at end of the period	<u>5,862,972</u>	<u>4,675,691</u>
Amortisation expense - land and buildings	(905,663)	(1,542,220)
Amortisation expense - plant and equipment	(14,767)	(29,299)
Amortisation expense - vehicles	(216,139)	(379,068)
Total amortisation expense	<u>(1,136,570)</u>	<u>(1,950,587)</u>

The consolidated entity leases land and buildings for its offices and laboratories under agreements of between one to eleven years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated. The consolidated entity leases office equipment under agreements of three and five years and property under agreements of one and nine years whilst vehicle lease agreements have a duration between one and five years.

\* Lease modifications for surrender of leases, early terminations, and changes to lease terms

**SomnoMed Limited**  
**Notes to the financial statements**  
**31 December 2022**

<b>Note 9. Lease liabilities</b>	<b>31.12.22</b>	<b>30.06.22</b>
	<b>\$</b>	<b>\$</b>
Lease liability - current	2,040,988	1,779,819
Lease liability - non-current	4,174,341	3,339,572
	<u><b>6,215,329</b></u>	<u><b>5,119,391</b></u>

**Note 10. Subsequent Events**

The directors are not aware of any matter or circumstance that has arisen since the end of the half year to the date of this report that has significantly affected or may affect,

- (i) The operations of the company and the entities that it controls,
- (ii) The results of those operations,
- (iii) The state of affairs of the Consolidated Entity in subsequent years.

**Note 11. Dividends**

No dividends were paid during or subsequent to the half-year ended 31<sup>st</sup> December 2022.

**Note 12. Property, plant and equipment**

**Plant and equipment**

Plant and equipment - at cost	13,253,679	12,414,666
Accumulated depreciation	(7,754,209)	(8,154,676)
	<u>5,499,470</u>	<u>4,259,990</u>

**Leasehold Improvements**

Lease hold improvement - at cost	855,714	723,464
Accumulated amortisation	(571,749)	(543,353)
	<u>283,965</u>	<u>180,111</u>
<b>Total property, plant and equipment</b>	<u><b>5,783,435</b></u>	<u><b>4,440,101</b></u>

**SomnoMed Limited**  
**Declaration by Directors**

In the directors' opinion:

- the attached financial statements and notes thereto comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 31 December 2022 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors

A handwritten signature in black ink, appearing to read 'Guy Russo', written in a cursive style.

Guy Russo  
Chairman

22<sup>nd</sup> February 2023  
Sydney

## INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of SomnoMed Limited

### Report on the Half-Year Financial Report

#### Conclusion

We have reviewed the half-year financial report of SomnoMed Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2022, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of the Group does not comply with the *Corporations Act 2001* including:

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2022 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

#### Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001* which has been given to the directors of the Company, would be the same terms if given to the directors as at the time of this auditor's review report.

#### Responsibility of the directors for the financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.



#### Auditor's responsibility for the review of the financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2022 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

BDO Audit Pty Ltd

A handwritten signature in black ink, appearing to read 'Tim Aman', positioned below the printed name.

Tim Aman  
Director

Sydney, 22 February 2023

## DECLARATION OF INDEPENDENCE BY TIM AMAN TO THE DIRECTORS OF COMPANY NAME

As lead auditor for the review of SomnoMed Limited for the half-year ended 31 December 2022, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of SomnoMed Limited and the entities it controlled during the period.



Tim Aman

Director

BDO Audit Pty Ltd

Sydney, 22 February 2023