

Compumedics Reaching For The Cloud(s)

BY JAMES DUNN - 10/06/2015

• CMP - COMPUMEDICS LIMITED



Compumedics recently unveiled its long-term strategy to move further into eHealth, and to spin-off two operations. The company says it is developing two eHealth platforms from its core world-class sleep diagnostic technology, which it has built over more than two decades, and into which it has invested more than \$100 million in accumulated R&D.

Medical monitoring device company Compumedics Limited (CMP) has had an outstanding 2014-15 financial year so far, following up its return to profitability in FY14.

Compumedics develops, makes and markets diagnostics technology for the sleep, brain and ultrasonic blood-flow monitoring applications. So far the technology has focused on the sleep medicine market, monitoring and diagnosing conditions that affect sleep. Sleep disorders – such as sleep apnoea – is now seen as a leading cause of at least two today's principal causes of death, namely cardiac arrest and stroke, and as a result, the sleep medicine market is a fast-growing and high-value market globally.

More recently the company has moved into the associated fields of neuro-diagnostics and brain research, with specialised devices for monitoring neurological disorders,

including long-term epilepsy monitoring (LTEM) systems, highly sophisticated brain research and ultrasonic monitoring of brain blood flow, through CMP's trans-cranial Doppler sonography systems, which measure and analyse flow velocity in blood vessels and detect micro-embolisms in the brain. The company's brain blood-flow Doppler sonography division, based in Germany, is known as DWL.

Established in 1988 and listed on the Australian Securities Exchange (ASX) in December 2000, Compumedics sells its products into the US – the world's largest medical device market – as well as Australia, Europe, Asia and the Middle East, under the brands Grael, E-Series, Siesta, Safiro, Somte, Somte PSG (polysomnography), ProFusion PSG and Neuvo.

The company is a technological leader in its chosen markets: CMP is the number one sleep and neurological diagnostics device supplier in Australia, the leading sleep diagnostics device supplier in Japan, the number one sleep diagnostic device supplier in China and the number three sleep diagnostic device supplier in the USA, where it is also the emerging number three supplier for neurological monitoring devices.

The core sleep and brain diagnostic monitoring business has 20,000 installed systems worldwide, with strong brand name and reputation, and CMP is expecting average sales growth of about 10% a year in that business. The growth drivers will be the NeuroScan LTEM innovative brain analysis software and high performance amplifiers, which the company says are "unrivalled" world-class technology; as well as the emerging home sleep testing (HST) market; expansion in Asia (particularly China) and Europe; and growing the sleep diagnostic market position in the US. Compumedics says it is the only competitor left that can rival the largest player, Natus Medical.

The company is outsourcing manufacturing to the lower-cost regions of China and Taiwan, and has completed the redesign of all major product lines for aggressive global full market access. This process was based on at least halving cost of goods, while retaining quality and performance.

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its core world-class sleep diagnostic technology, which it has built over more than two decades, and into which it has invested more than \$100 million in accumulated R&D.

The two platforms are:

- eHealthMEDICS – a cloud-based sleep diagnostic service for existing and new professional practices; and
- eLifeMEDICS – a new consumer-based device and service that delivers ‘real’ medical-quality sleep data for personal use. Compumedics says it has “large scale strategic and distribution discussions” underway.

The two potential spin-offs are DWL, and the brain research operations.

DWL is a global leader in TCD (trans-cranial Doppler) ultrasound, but Compumedics says there is a significant short-term growth opportunity in 3D trans-cranial colour Doppler (TCCD)/Duplex Imaging, which is a US\$900 million market, compared to DWL’s current market of \$US30 million. CMP says access to this much larger market needs only a relatively small investment to upgrade the user interface.

CMP says DWL has big medium-term growth opportunities in the traumatic brain injury (TBI) and stroke markets. However, 3D TCCD and TBI are beyond the current financial capability of DWL, so growth capital is needed for this business – hence the spin-off proposal.

The brain research spin-off opportunity is driven by the huge growth in demand for neurology devices: this market is growing from US\$2 billion in 2010 to an estimated US\$7 billion a year by 2017, and Compumedics believes there are big opportunities for its world-class (if not best-in-class) Neuroscan CURRY range of brain analysis, monitoring and MEG (magneto-encephalography) software and devices. Spinning-out this technological platform would unlock significant value, fund growth initiatives and potentially allow a capital distribution to CMP shareholders.

If realised, these spin-offs will help to fund the online healthcare solutions, eHealthMEDICS for professionals and eLifeMEDICS for consumers. To develop these platforms, Compumedics intends to join forces with major healthcare service providers

across Asia, the USA and the rest of world, leveraging off its proven monitors (Somte), analysis algorithms (Profusion) and web and clinical enterprise solutions (Nexus).

Compumedics describes this roll-out as moving more than 25 years – and more than \$100 million – in cumulative R&D to a modern web-cloud platform, to solve a massive and growing problem.

As would be expected, the company is starting off in the sleep domain, leveraging its market-leading sleep monitoring services, and talking to health service providers and seeking strategic partnerships with web, telecommunication, mobile-wireless, and technology leaders. Through either investment or “deep collaboration,” Compumedics is looking to roll-out a range of eHealth (internet) and “mHealth” (or mobile health) smartphone solutions: it has the intellectual property, the medical-grade life-signals monitoring capability, but through the eHealth/mHealth platform, these signals will be sent to the cloud, processed by algorithms based there, and the data sent to a network of physicians. Sleep disorders will lead the development of this platform, but neurology, heart disease, epilepsy and diabetes monitoring – both in the home and hospital – will follow.

The eLifeMEDICS platform will also be led by sleep monitoring: Compumedics’ SomFit device allows medical-grade measurement in a consumer environment, with the cloud-based data environment providing safe access by health professionals and sleep coaching for consumers. The cloud-based sleep database already in production, and CMP has \$10 million of orders already from China.

This year, the company has announced a string of new offshore deals in China, US and Germany, to consolidate its position after returning to profitability last year. After a loss of \$1.5 million for the year ended 30 June 2013, the company surged back to profitability in the year to June 30 2014, earning \$900,000, or 0.54 cents a share.

Then for the half-year ended December 2014, CMP put that figure in the shade, reporting the same net profit of \$900,000 in just six months. Earnings per share (EPS) came in at 0.85 cents a share, compared to a loss of 0.19 cents a share at December 2014.

On the back of the strong interim result, the company has guided the market to expect revenue of \$33 million for the FY15 full-year, compared to \$30.8 million in FY14, with EBITDA (earnings before interest, tax, depreciation and amortisation) coming in at \$3.5 million–\$4 million, up from \$3 million in FY14, and net profit in the range of \$1.8 million–\$2 million, at least double the \$900,000 profit reported in FY14.

Compumedics entered the year at 9.1 cents, but has surged to 27 cents on the back of the strong deal flow, and investors “buying” the increased profitability story as represented by the company’s guidance. In addition to the positive profit outlook, Compumedics has put an ambitious and coherent strategy – for both expansion and unlocking the value of the company’s technology – to the market, and something very impressive could be building.

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