

COMPUMEDICS LIMITED

(ACN 006 854 897)

ASX final report – 30 June 2020

Lodged with the ASX under Listing Rule 4.3A

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			\$'000
Revenue from ordinary activities (Appendix 4E item 2.1)	Down 15.5% or \$6,436k	to	35,069
Profit/(Loss) before interest, tax, depreciation and amortisation	Down \$11,303k	to	(5,419)
Profit/(Loss) from ordinary activities after tax attributable to members (Appendix 4E item 2.2)	Down \$9,854k	to	(5,838)
Profit/(Loss) for the period attributable to members (Appendix 4E item 2.3)	Down \$9,854k	to	(5,838)

Dividends/distributions (Appendix 4E item 2.4)	Amount per security	Franked amount per security
Final dividend	n/a	n/a

Record date for determining entitlements to the dividend

n/a

(Appendix 4E item 2.5)

Explanation of Revenue (Appendix 4E item 2.6)

Group revenues at \$35.1m for the year ended 30 June 2020 were 15.5% lower than the prior corresponding period (pcp). The decrease in revenues primarily reflects the impact of containment measures around the world in dealing with the COVID-19 pandemic in the second half of the financial year. This resulted in sleep and neurological diagnostic and monitoring service providers being temporarily suspended during lock downs in various countries around the world. Whilst restrictions and limitations remain, most facilities around the world have recommenced services as containment measures have been wound back.

The most significant impact on revenues from the COVID-19 pandemic has been the Company's China-based sales, which fell by about 41% over the pcp. The Chinese market remains subdued for both sleep and neurological equipment sales now, despite easing of restrictions in much of the country. As such, the Company does not expect the China-based business to contribute as strongly to growth in sales for the foreseeable future. Europe was also impacted by the pandemic with sales across the continent down 38% over the pcp.

Importantly, and despite the COVID-19 pandemic, the Japan-based neurological business grew sales 642% over the pcp from \$0.2m to \$1.5m. The Company anticipates this business will continue to grow over future periods. Sales in the Australian business finished in line with the pcp at about \$4.8m

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Explanation of Revenue (continued) *(Appendix 4E item 2.6)*

Sales in the USA-based business whilst 10% lower than the pcp, did not fall as much as originally anticipated, due to lockdowns occurring differently state, by state.

The Company booked new sales orders for the year ended 30th June 2020 of \$35.2m, a decrease of approximately 13% compared to new sales orders taken in the 12 months to 30th June 2019 of \$40.5m, excluding MEG. The decrease in sales orders taken was largely a result of the containment measures put in place for the COVID-19 pandemic around the world in the second half of the financial year.

The Company finished the year with sales-orders on-hand of approximately \$7.7m, which was in line with the same time last year.

Explanation of Earnings before interest, tax, depreciation and amortisation (EBITDA) *(Appendix 4E item 2.6)*

As a result of the lower sales EBITDA, before the intangible asset impairment fell to \$2.3m for the year ended 30th June 2020, compared to the prior year EBITDA result of \$5.9m. The Company's reported statutory EBITDA was a loss of \$5.4m which reflects a non-cash adjustment of \$7.7m to the carrying value of the Company's intangible assets.

Compumedics intangible assets had a carrying value of \$9.7m at 31 December 2019. These intangible assets relate primarily to the capitalisation of expenses associated with both the Somfit and MEG technologies. The expenses were predominantly research and development costs associated with the two technology/product platforms and associated costs of getting the products ready for commercialisation. The intent was to amortise these costs over the useful life of the products once they were selling in commercial and consistent quantities. As such, Compumedics is continuing to actively pursue ongoing commercial opportunities for both the MEG and Somfit technology platforms and believes the Company will generate significant commercial returns from both these technology platforms in the future, having already sold the first MEG system. With that said, the COVID-19 pandemic has created significant uncertainty over the timing of those commercial activities and when they may develop sufficiently to justify the current carrying value of the intangible assets. As such the Company has reviewed the carrying value of the intangible assets in relation to the MEG and Somfit technology and has reduced the value of the intangible assets to \$2.6m for these two opportunities. As a result, there is a one-off, non-cash charge of \$7.7m to the profit and loss for the year ended 30 June 2020.

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Explanation of Earnings before interest, tax, depreciation and amortisation (EBITDA) [continued] *(Appendix 4E item 2.6)*

Margins were negatively impacted by the loss of revenues as a result of the COVID-19 pandemic falling from 60% in FY19 to 51% in FY20. The fall in margins largely reflects the drop in the volume of sales. Compumedics charges to cost of goods sold expenses related to logistics, customer care, training and installation, which do not vary significantly with the volume of sales. As a result, when the Company is faced with a situation such as the COVID-19 pandemic, which leads to a very quick and significant reduction in sales, margins have been adversely impacted. This is despite on-going efficiency gains from the Company's ongoing project to selectively outsource manufacturing and minimise double handling of product globally together with new products being engineered at a lower target cost.

The EBITDA result also reflects on-going investment related to the MEG business and to a suite of next generation products for the core business, which will start to generate incremental revenues and margin over the course of FY21. The Company will continue to assess other operational efficiency gains, which can be implemented and locked in over the foreseeable future. These additional gains, once implemented, will have a positive impact on margins and EBITDA into FY21 as the Company trades through the impact of the COVID-19 pandemic.

Explanation of Profit from ordinary activities after tax *(Appendix 4E item 2.6)*

The loss from ordinary activities after tax for the year ended 30 June 2020, which includes a non-cash impairment for intangible assets was \$5.8m compared to a \$4.0m profit recorded for the prior year.

The Company booked financing charges of \$0.4m, an increase on the \$0.2m for the prior year reflecting the change in accounting standards for leases where a \$0.1m financing charge is now booked. Depreciation and amortisation were \$1.7m for FY20, compared to \$0.5m in the pcp. The change in the accounting for leases reflects \$0.9m of the increase. The Company booked an income tax benefit of \$1.7m, which mainly relates to deferred tax assets.

Apart from these charges the above explanation for the EBITDA result for the year ended 30 June 2020 reflects the underlying operational impacts on earnings for the full year over the prior year.

Explanation of Dividends *(Appendix 4E item 2.6)*

No dividends have been declared or paid in the period.

Net Tangible Asset Backing *(Appendix 4E item 9)*

	2020	2019
Net tangible asset backing per ordinary share (Includes right-of-use assets)	10.3 cents	11.6 cents

Compumedics Limited
Consolidated statement of profit or loss and other
comprehensive income
for the year ended 30 June 2020

	Notes	2020 \$'000	2019 \$'000
Revenue from continuing operations		35,069	41,505
Other income		1,265	381
Cost of sales		(17,057)	(16,736)
Administration		(5,927)	(6,424)
Sales & Marketing		(8,998)	(8,471)
Research & Development		(3,843)	(5,319)
Impairment of Intangible Assets	7	(7,661)	-
Finance costs		(420)	(261)
Net foreign exchange gain		69	412
Profit/(Loss) before income tax		(7,503)	5,087
Income tax (expense)/benefit		1,665	(1,071)
Profit/(Loss) for the full year		(5,838)	4,016
Profit/(Loss) attributable to members of Compumedics Limited		(5,838)	4,016
Net Profit/(Loss) for the year		(5,838)	4,016
Other comprehensive income / (loss)			
Items that may be subsequently reclassified to Profit or Loss when specific conditions are met:			
Foreign currency translation		315	141
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		(5,523)	4,157
Earnings/(Losses) per share for profit from continuing operations attributable to the ordinary equity holders of the company (cents):			
Basic earnings/(losses) per share		(3.3)	2.3
Diluted earnings/(losses) per share		(3.3)	2.3

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

Compumedics Limited
Consolidated statement of financial position
as at 30 June 2020

	Notes	2020 \$'000	2019 \$'000
ASSETS			
Current assets			
Cash and cash equivalents		6,412	4,599
Receivables		12,596	15,980
Inventories		8,831	7,798
Other		1,047	1,837
Total current assets		28,886	30,214
Non-current assets			
Property, plant and equipment		1,465	1,652
Right-of-use assets	6	1,618	-
Deferred tax assets		781	-
Intangible assets		2,777	6,795
Non-current assets		6,641	8,447
Total assets		35,527	38,661
LIABILITIES			
Current liabilities			
Payables		3,832	4,386
Borrowings		3,051	1,570
Lease liabilities	6	902	-
Provisions		2,828	2,850
Income tax payable		106	12
Deferred revenue		1,717	1,376
Total current liabilities		12,436	10,194
Non-current liabilities			
Borrowings		11	23
Lease liabilities	6	835	-
Provisions		31	14
Deferred tax liabilities		-	997
Deferred revenues		420	116
Total non-current liabilities		1,297	1,150
Total liabilities		13,733	11,344
Net assets		21,794	27,317
EQUITY			
Contributed equity		35,654	35,654
Reserves		42	(273)
Retained losses		(13,902)	(8,064)
Total equity		21,794	27,317

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

Compumedics Limited
Consolidated statement of changes in equity
for the full year ended 30 June 2020

	Contributed equity \$,000	Reserves \$,000	Retained Losses \$,000	Total \$'000
Balance at 1 July 2018	35,654	(414)	(12,080)	23,160
Profit for the year	-	-	4,016	4,016
Other comprehensive income / (loss)	-	141	-	141
Total comprehensive income/(loss) for the year	-	141	4,016	4,157
Transactions with owners in their capacity as owners:				
New shares issued	-	-	-	-
Balance at 30 June 2019	35,654	(273)	(8,064)	27,317
Balance at 1 July 2019	35,654	(273)	(8,064)	27,317
Profit/(Loss) for the year	-	-	(5,838)	(5,838)
Other comprehensive income / (loss)	-	315	-	315
Total comprehensive income/(loss) for the year	-	315	(5,838)	(5,523)
Transactions with owners in their capacity as owners:				
New shares issued	-	-	-	-
Balance at 30 June 2020	35,654	42	(13,902)	21,794

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

Compumedics Limited
Consolidated statement of cashflows
for the year ended 30 June 2020

	Notes	2020 \$'000	2019 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		39,214	41,334
Payments to suppliers and employees (inclusive of goods and services tax)		(34,702)	(36,310)
Interest and other costs of finance paid		(394)	(261)
Income tax paid		-	(26)
Receipts from grants and other income		1,265	399
Net cash inflow from operating activities	5	5,383	5,136
Cash flows from investing activities			
Payment for property, plant and equipment		(404)	(1,314)
Payment for intangible assets		(3,829)	(2,972)
Net cash (outflow) from investing activities		(4,233)	(4,286)
Cashflows from financing activities			
Proceeds from borrowings		3,075	881
Repayment of borrowings		(1,582)	(732)
Repayment of leases		(1,045)	-
Proceeds from equity		-	-
Net cash inflow from financing activities		448	149
Net increase/(decrease) in cash and cash equivalents		1,598	999
Cash and cash equivalents at the beginning of the year		4,371	3,200
Effects of exchange rate changes on cash		46	172
Cash and cash equivalents at the end of the financial year		6,015	4,371
This is represented by:			
Cash Assets		6,412	4,599
Invoice facility and overdraft (Interest bearing liabilities)		(397)	(228)
Net Cash		6,015	4,371

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

Compumedics Limited
Notes to the consolidated financial statements
for the year ended 30 June 2020

1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below.

These policies have been consistently applied to all the periods presented, unless otherwise stated.

Basis of preparation of consolidated financial report

This preliminary consolidated financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

This preliminary consolidated financial report for the year ended 30 June 2020 does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by Compumedics Limited during the year in accordance with the continuous disclosure requirements of the Corporations Act 2001 and Australian Stock Exchange Listing Rules.

Compliance with IFRS

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the consolidated financial statements and notes of Compumedics Limited comply with International Financial Reporting Standards (IFRS).

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

Compumedics Limited
Notes to the consolidated financial statements
for the year ended 30 June 2020

Note 2. Operating segment

Identification of reportable segments

The Group has identified its operating segments based on the internal reports, which are produced by geographical segment and which are reviewed and used by the chief operating decision maker, being the Chief Executive Officer and Chief Financial Officer, in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on the country of origin and the senior managers who are responsible for the performance of the business in that geographic territory, the type of product and service provided and whether the product is sold directly to end-user customers or via distributors.

The reportable segments are based on geographic territory as these are the sources of the Group's major risks and have the most effect on rates of return.

Geographic locations

Americas

The Group's Americas based business includes, the United States, Canada and Latin America. The Group sells all of its product offerings in this region including sleep diagnostic systems, clinical EEG systems, brain monitoring systems, ultrasonic blood-flow systems, supplies and technical service and support. The USA business also includes the sleep diagnostic services business. Sales in the Americas are predominantly direct sales to end-user customers. The USA office is based in Charlotte, North Carolina.

Australia and Asia Pacific

The Group's head office is based in Melbourne, Australia and the Australia and Asia Pacific territory includes all countries in the Asia Pacific region with major countries for the territory including Japan and China. The Group sells all of its product offerings in this region including sleep diagnostic systems, clinical EEG systems, brain monitoring systems, ultrasonic blood-flow systems, supplies and technical service and support. The group sells directly to end-user customers in Australia and via a network of distributors into the Asian region.

Europe and the Middle East

The Group's Europe-based business has its principal office in Singen, Germany with a second office in Hamburg Germany. The European territory includes all countries in the European region, plus all Middle Eastern countries.

Compumedics Limited
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Note 2. Operating segment (continued)

The Group sells all of its product offerings in this region including sleep diagnostic systems, clinical EEG systems, brain monitoring systems, ultrasonic blood-flow systems, supplies and technical service and support. The Group sells its ultrasonic blood-flow systems directly in Germany and all other products are sold via a network of distributors across the territory.

The following table represents revenue and profit information for reportable segments for the years ended 30 June 2020 and 30 June 2019.

Operating Segment
For the year ended 30 June 2020

\$'000	USA	Australia and Asia Pacific	Europe	Group
Sales to external customers	12,581	14,972	7,516	35,069
Intersegment sales	575	3,945	976	5,496
Other Intersegment Revenue	257	8	1,535	1,800
Total segment revenue	13,413	18,925	10,027	42,365
Inter-segment elimination	(832)	(3,953)	(2,511)	(7,296)
Total revenue per the Statement of Comprehensive Income	12,581	14,972	7,516	35,069
Segment result	726	(5,825)	(320)	(5,419)
Depreciation and amortisation	(214)	(1,150)	(300)	(1,664)
Net Interest (expense) / income	(76)	(271)	(73)	(420)
Net profit before income tax per the Statement of Comprehensive Income	436	(7,246)	(693)	(7,503)
Segment assets				
Operating assets	9,291	59,773	5,222	74,286
Intersegment eliminations	-	(38,759)	-	(38,759)
Total assets from continuing operations per the Statement of Financial Position	9,291	21,014	5,222	35,527

Compumedics Limited
Notes to the consolidated financial statements
for the year ended 30 June 2020

Note 2. Operating segment (continued)

Operating Segment
For the year ended 30 June 2019

\$'000	USA	Australia and Asia Pacific	Europe	Group
Sales to external customers	13,773	18,634	9,098	41,505
Intersegment sales	626	3,794	883	5,303
Other Intersegment Revenue	675	-	200	875
Total segment revenue	15,074	22,428	10,181	47,683
Inter-segment elimination	(1,301)	(3,794)	(1,083)	(6,178)
Total revenue per the Statement of Comprehensive Income	13,773	18,634	9,098	41,505
Segment result	1,458	3,882	(558)	5,898
Depreciation and amortisation	(121)	(98)	(331)	(550)
Net Interest (expense) / income	(32)	(188)	(41)	(261)
Net loss before income tax per the Statement of Comprehensive Income	1,305	3,596	186	5,087
Segment assets				
Operating assets	7,164	54,811	6,468	68,443
Intersegment eliminations	-	(29,782)	-	(29,782)
Total assets from continuing operations per the Statement of Financial Position	7,164	25,029	6,468	38,661

Compumedics Limited
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Note 3. Dividends (Appendix 4E, item 7)

No dividend has been declared or paid in the current or prior period.

Dividend/distribution reinvestment plans (Appendix 4E item 8)

NOT APPLICABLE

Note 4. Events occurring after reporting date

The company is not aware of any material matters that would impact the financial performance and financial position of the company at this time.

Note 5 - Reconciliation of profit after income tax to net cash flow from operating activities

	2020 \$'000	2019 \$'000
Profit/(Loss) for the year	(5,838)	3,988
Non-cash flows in profit:		
Amortisation	1,069	219
Impairment of Intangible Asset	7,661	-
Depreciation	595	331
Net exchange differences	353	23
Change in operating assets and liabilities:		
(Increase)/Decrease in receivables	3,384	471
(Increase)/Decrease in inventories	(1,033)	(237)
(Increase)/Decrease in other current assets	790	45
(Increase)/Decrease in deferred tax assets	(781)	144
Increase/(Decrease) in payables	(554)	(701)
Increase/(Decrease) in deferred revenues	644	(218)
Increase/(Decrease) in tax provisions	95	940
Increase/(Decrease) in deferred tax liabilities	(997)	-
Increase/(Decrease) in other provisions	(5)	131
Net cash inflow from operating activities	5,383	5,136

Compumedics Limited
Notes to the consolidated financial statements
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Note 6. Lease Liabilities and Right-of-use Asset

The Group has lease liabilities relating primarily to the offices it runs the business from in Melbourne, Charlotte, Singen, Hamburg and El Paso. Additional lease liabilities included below relate to cars and office equipment in the DWL business in Germany. The total lease liabilities are:

Current lease liabilities are \$902k.

Non-current lease liabilities are \$835k.

Approximately 90% of the lease liabilities that are non-current relate to the properties the business operates from. The underlying contracts for these properties have expiry dates from late 2021 through 2023.

A right-of-use assets have been booked on take up of the total lease liabilities. The initial take up amount was \$2,502k at 1 July 2019. In the twelve months to 30 June 2020 an amortisation charge against this asset was booked to the profit and loss of \$883k. An interest charge of \$135k was also booked to the profit and loss in relation to the lease liabilities for the twelve-month period to June 30, 2020.

Note 7. Impairment of Intangible Asset

Compumedics' statutory EBITDA result was impacted by a non-cash \$7.7m write down of the value of the Company's intangible assets. Compumedics intangible assets had a carrying value of \$9.7m at 31 December 2019. These intangible assets relate primarily to the capitalisation of expenses associated with both the Somfit and MEG technologies. The expenses were predominantly research and development costs associated with the two technology/product platforms and associated costs of getting the products ready for commercialisation.

The intent was to amortise these costs over the useful life of the products once they were selling in commercial and consistent quantities. As such, Compumedics is continuing to actively pursue ongoing commercial opportunities for both the MEG and Somfit technology platforms and believes the Company will generate significant commercial returns from both these technology platforms in the future, having already sold the first MEG system.

With that said, the COVID-19 pandemic has created significant uncertainty over the timing of those commercial activities and when they may develop sufficiently to justify the current carrying value of the intangible assets. As such the Company has reviewed the carrying value of the intangible assets in relation to the MEG and Somfit technology and has reduced the value of the intangible assets to \$2.6m for these two opportunities. As a result, there is a one-off, non-cash charge of \$7.7m to earnings in the year ended 30 June 2020.

Compumedics Limited
Notes to the consolidated financial statements
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Note 7. Impairment of Intangible Asset (continued)

The Company will also carry forward an intangible asset of \$0.2m at 30 June 2020, related to technology in the DWL business and \$0.2m of development costs related to the new products in the core business.

Whilst the COVID-19 pandemic may have created some uncertainty as to the timing of the future commercial benefits of these two technology platforms, the Company fundamentally believes and will actively continue to develop its MEG and Somfit technology platforms to capture the significant commercial returns it believes they will generate for the Company and its shareholders.

These include pursuing the next MEG sale, whilst finalising the existing MEG sale and continuing to develop other market opportunities for MEG. The MEG market opportunity in the US, Europe and Asia remains significant and the Company is well placed to capture new and growing sales as the pandemic retreats.

As it relates to the Somfit, the Company is continuing to pursue its primary goal for the device being sleep and other neurological applications in the larger consumer monitoring markets and more recently the potential application of the Somfit device as a multi-modal vital signs monitor for potential COVID-19 application. The Company has responded quickly to both State and Federal Government initiatives that could see the Somfit device utilised as part of an ongoing COVID-19 monitoring program.

Compumedics Limited
Supplementary Appendix 4E information
for the year ended 30 June 2020

Net Tangible Asset Backing *(Appendix 4E item 9)*

	2020	2019
Net tangible asset backing per ordinary share (Includes right-of-use assets)	10.3 cents	11.6 cents

Controlled entities acquired or disposed of *(Appendix 4E item 10)*

No control was gained over any new entities nor control lost over any existing entities of the group.

Associates and Joint Venture entities *(Appendix 4E item 11)*

The company has no interest in any joint ventures at the date of this report.

Commentary on results *(Appendix 4E item 14)*

Earnings per share

Earnings per share have decreased with the underlying decline in earnings for the Company, as already discussed.

Returns to shareholders

As per earnings per share commentary.

Significant features of operating performance

Comments already noted.

Results of segments

Primary Segments:

The primary business sectors reflect the main geographical markets the business operates in. As already discussed the US, Australian and Germany-based DWL businesses decreased compared to the pcp. The Asia-based business, incorporating China, also decreased over the pcp.

Trends in performance

The primary focus of the Company will be to ensure growth in its key markets for its core business so as to grow revenues and underlying profitability, as conditions following the COVID-19 pandemic allow.

Other factors that affected results in the period or which are likely to affect results in the future

All material matters have been discussed including the impairment of the intangible asset in Note 7.

Foreign Accounting standards *(Appendix 4E item 13)*

Not applicable.

Audit *(Appendix 4E items 15 - 17)*

This report is based on accounts that are in the process of being audited.

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