



SomnoMed announces revised FY24 guidance and \$22.6 million capital raising

SomnoMed Limited (ASX:SOM) (SomnoMed or the Company), a leading company in the provision of treatment solutions for sleep-related breathing disorders and obstructive sleep apnea (**OSA**), today announces its revised FY24 guidance and a fully underwritten equity raising through a pro rata accelerated non-renounceable entitlement offer (**Entitlement Offer**) to raise gross proceeds of \$22.6 million.

Key points

- Revised financial year ending 30 June 2024 (**FY24**) revenue growth guidance of 6% - 9%, versus previous guidance of 12%+, related to inability to meet customer demand due to manufacturing capacity constraints
- Revised FY24 EBITDA¹ guidance of \$(1) - \$0 million, versus previous guidance of \$3 million+, due to manufacturing constraints and delayed implementation of cost initiatives announced in January 2024
- FY24 capex guidance of \$5 million, unchanged from previous guidance
- SomnoMed is launching a fully underwritten \$22.6 million capital raising to clean its balance sheet and reduce costs, and fund investment into manufacturing capacity initiatives and Rest Assure® scalability

Following a comprehensive overview of the operational challenges that are impacting current performance and leading to revised earnings guidance for FY24, the Company has made the decision to conduct the Entitlement Offer now in order to:

- fund a more aggressive restructuring plan that will materially reduce costs with effect from the financial year ending 30 June 2025 (**FY25**);
- seek additional funding through equity, rather than debt, as this is a preferred capital structure given the current stage of the business and to set the Company up for future growth;
- pay down the Epsilon debt facility now rather than wait until FY25 when the debt becomes current and payable, particularly given the Company is likely to be in breach of its financial covenants under this facility when next tested at the end of FY24 in the absence of conducting the Entitlement Offer and repaying the debt (or renegotiating its covenants for a second time); and
- provide urgent additional investment to improve the Company's current manufacturing capacity to satisfy the increasing demand for the Company's products and mitigate the risk of a single operations site.

The decision to undertake an equity capital raising was made by the Board on the recommendation of the independent board committee which is a sub-group of the Company's directors that excludes the Company's major shareholder, TDM Growth Partners Pty Ltd (**TDM**), nominee director which was formed for the purpose of considering the terms and pricing of the Entitlement Offer.

Further details on the manufacturing capacity constraints and delayed implementation of cost initiatives are provided in the following section and the prospectus which was lodged with ASIC and released to ASX today in connection with the Entitlement Offer (**Prospectus**).

¹ EBITDA does not include AASB16 lease payments, share/option expenses, unrealised forex gain/(loss), discontinued operations and once off restructuring costs.

Operational issues

Manufacturing capacity issues and constraints

In the Quarterly Update for Q2 FY24 released in January 2024, the Company advised of manufacturing capacity issues and hence the supply of finished product during Q2 was interrupted during November 2023 by milling machine downtime. It was advised that a total of 8 out of 23 milling machines were out of commission for various mechanical reasons for a period of 2 weeks. It was noted that an aggressive catch-up plan had been implemented during December 2023 to ensure that all orders received up to early December were completed prior to the end of the quarter.

Following a visit to the manufacturing facility in Manila in January 2024, management confirmed that all milling machine issues had been resolved and capacity had returned to 100%. To mitigate any potential risk, management developed and enacted contingency plans to ensure that such milling machine breakdowns did not re-occur again. Orders received by the Company across all regions in late 2023 and into early 2024 continued to be very strong.

The two newly appointed co-CEO's visited the manufacturing facility in Manila in March 2024, as part of their initial discovery phase, to better understand the past production issues encountered in 2023. It became apparent on this visit that given the continued strong demand for the Company's products, the facility was not able to reduce the backlog of orders, which had built up in late 2023.

It was assessed that the capacity of the facility was not capable of manufacturing enough volume to satisfy the increasing demand for the Company's products. If a short-term solution to this manufacturing capacity constraint was not found, it became apparent that the future revenues of the Company would be impacted in the short term and that this would have a consequential impact on the results, profitability and cash flow generation of the Company for Q4 FY24 and the full year FY24.

Further assessment and discussions with the Company's manufacturing leadership in late March 2024 determined that the capacity constraint cannot be resolved prior to the end of FY24 and further actions are required to increase the capacity of the facility.

Cost efficiency delays

Planned cost initiatives that were included in prior EBITDA guidance have not been executed according to the original timetable, as February 2024 guidance supported achievement of revenues and a portion of cost initiatives were delayed. Originally planned cost reductions as well as additional cost reductions are now in progress and will be completed by 30 June 2024.

Capital raising

The Company has today announced a fully underwritten capital raising of A\$22.6 million through the Entitlement Offer to be undertaken pursuant to the Prospectus.

The Entitlement Offer will consist of a 1 for 1.01 accelerated pro rata non-renounceable entitlement offer through the issue of approximately 107.5 million new fully paid ordinary shares in SomnoMed (**New Shares**), representing approximately 49.8% of SomnoMed's existing fully paid ordinary shares on issue.

The Entitlement Offer includes:

- an institutional entitlement offer that is expected to raise ~A\$6.6 million (**Institutional Entitlement Offer**); and
- a retail entitlement offer that is expected to raise ~A\$16.0 million (**Retail Entitlement Offer**).

The Entitlement Offer is fully underwritten by Wilsons Corporate Finance Limited (**Wilsons**) and sub-underwritten by major shareholder, TDM.

All New Shares in the Entitlement Offer will be issued at a price of A\$0.21 per New Share (**Offer Price**) which represents:

- A 29.5% discount to the theoretical ex-rights price (**TERP**)² of \$0.298 on 26 March 2024 (the last day of trading before the trading halt and entry into voluntary suspension); and
- A 45.5% discount to the last closing price on 26 March 2024 of \$0.385 per share.

Under the Entitlement Offer, eligible shareholders will be able to subscribe for 1 New Share for every 1.01 existing shares held at 7.00pm (Sydney Time) on Thursday, 11 April 2024 (**Record Date**) at the Offer Price (**Entitlements**), with fractions rounded up.

The Entitlements are non-renounceable and will not be tradeable on ASX or otherwise transferable. Shareholders who do not take up their Entitlements will not receive any value for those Entitlements that they do not take up. Shareholders who are not eligible to receive Entitlements will not receive any value for the Entitlements they would have received had they been eligible.

New Shares issued under the Entitlement Offer will rank equally with existing SomnoMed shares on issue.

TDM, SomnoMed's largest shareholder with a current shareholding of 30.00% of shares on issue, is supportive of the Company's strategy and supportive of the capital raising. TDM has provided an irrevocable commitment to subscribe for 100% of its pro rata share of the Entitlement Offer under the Retail Entitlement Offer and has agreed to act as sub-underwriter to the Entitlement Offer. Pursuant to its sub-underwriting agreement, TDM will receive a fee of 1.0% (inclusive of GST) on the value of any shortfall allocated to TDM following the institutional bookbuild and on the value of the Retail Entitlement Offer (excluding TDM's Entitlement), which is no higher than the fee that any other sub-underwriter will receive for a sub-underwriting commitment under the Entitlement Offer. Any shortfall not taken up by SomnoMed's other existing shareholders who are eligible to participate in the Entitlement Offer (and any other sub-underwriters who are appointed) will be allocated to TDM pursuant to its sub-underwriting commitment.

The participation of TDM in the Entitlement Offer, through the take up of its Entitlement and the allocation of any shortfall shares, may result in its shareholding increasing up to a theoretical maximum of 64.8% if no other shareholder were to participate in the Entitlement Offer.³

Guy Russo (Non-Executive Chairman) has agreed to partially sub-underwrite the Entitlement Offer up to approximately \$109,000 in excess of Mr Russo's approximately \$91,000 worth of Entitlements (i.e. providing a commitment to subscribe for \$200,000 under the Entitlement Offer).

Amrita Blickstead (Ce-CEO and Executive Director), has agreed to partially sub-underwrite the Entitlement Offer up to approximately \$176,000 in excess of Ms Blickstead's approximately \$24,000 worth of Entitlements (i.e. providing a commitment to subscribe for \$200,000 under the Entitlement Offer).

Karen Borg (Co-CEO and Executive Director) has agreed to partially sub-underwrite the Entitlement Offer up to approximately \$100,000.

Mr Russo, Ms Blickstead and Ms Borg will not receive any fees for their sub-underwriting arrangements and all other Directors intend to take up their respective Entitlements in full.

Institutional Entitlement Offer

Eligible institutional shareholders will be invited to participate in the Institutional Entitlement Offer which will take place from today, Tuesday, 9 April 2024. Eligible institutional shareholders may opt to take up all, part, or none of their Entitlement.

Institutional Entitlements that eligible institutional shareholders do not take up by the close of the Institutional Entitlement Offer, and institutional Entitlements that would otherwise have been offered to ineligible institutional and retail shareholders, will be offered to eligible institutional shareholders who apply for new shares in excess of their Entitlement, as well as to certain other eligible institutional investors who bid into the institutional bookbuild

² TERP is a theoretical price at which SomnoMed shares trade immediately after the ex-date for the Entitlement Offer. TERP is calculated by reference to SomnoMed's closing price of \$0.385 on 26 March 2024. TERP is a theoretical calculation only and the actual price at which SomnoMed shares trade immediately after the ex-date for the Entitlement Offer will depend on many factors and may not be equal to TERP.

³ This assumes there are no investors under the institutional bookbuild, no other sub-underwriting commitments have been obtained and no eligible shareholders take up their Entitlement to New Shares.

being conducted concurrently with the Institutional Entitlement Offer. Any residual shortfall shares not taken up by eligible institutional shareholders during the bookbuild process will be allocated to TDM as part of its sub-underwriting commitment.

SomnoMed shares will remain in voluntary suspension pending completion of the Institutional Entitlement Offer.

Retail Entitlement Offer

Eligible retail shareholders will be invited to participate in the Retail Entitlement Offer on Tuesday, 16 April 2024 and the offer will close at 5.00pm (Sydney Time) on Wednesday, 1 May 2024. Retail shareholders will be notified by the Company as to their eligibility to participate in the Retail Entitlement Offer. Eligible shareholders will be sent a letter explaining how to access the Prospectus along with a personalised entitlement and acceptance form on Tuesday, 16 April 2024. The prospectus will provide the details of how to participate in the Retail Entitlement Offer. A copy of the Prospectus has also been lodged with the ASX today.

Eligible retail shareholders that accept their full Entitlement can apply for additional New Shares through a retail oversubscription facility at the Offer Price, subject to pro-rata scale back in the event of oversubscription. Any shortfall shares not taken-up by eligible retail shareholders will be allocated on a pro rata basis to eligible institutional shareholders who commit to sub-underwrite the Retail Entitlement Offer. Any subsequent shortfall will then be allocated to TDM as sub-underwriter of 'last resort'.

Further details about the Retail Entitlement Offer are set out in the Prospectus lodged with ASX today, which SomnoMed expects to despatch to eligible shareholders with the accompanying Entitlement and Acceptance Form on Tuesday, 16 April 2024. For eligible retail shareholders who wish to take up all or part of their Entitlement, payment must be made via BPAY® or cheque for Australian shareholders by following the instructions set out on the personalised Entitlement and Acceptance Form. Eligible shareholders based in New Zealand who do not have an Australian bank account will be able to pay by bank draft in Australian currency. Payment is due by no later than 5.00pm (Sydney time) on Wednesday, 1 May 2024.

Use of proceeds received under the Entitlement Offer

The funds raised under the Entitlement Offer are expected to be used as follows:

Use of funds over the next 12 – 18 months ⁴	
	\$million
Clean balance sheet and reduce costs (annual savings >\$6.7 million)²	14.5
<i>Pay out Epsilon Direct Lending Facility</i>	11.5
<i>Fund cost reduction program</i>	3.0
Investment into manufacturing capacity initiatives and Rest Assure® scalability	7.0
<i>Immediate investment into manufacturing facility and capacity</i>	2.0
<i>Investment in dedicated production line and process for scale-up of Rest Assure®</i>	3.0
<i>Exploration and potential pilot of second manufacturing facility</i>	2.0
Subtotal	21.5
Transaction costs	1.1
Total Offer size	22.6

⁴ The actual use of funds raised under the Entitlement Offer may change depending on the outcome of the activities as they proceed as well as the future circumstances of the Company. The Board reserves the right to alter the way in which funds are applied on this basis.

Entitlement Offer timetable

Event	Date (2024)
Prospectus lodged, Institutional Entitlement Offer opens	Tuesday, 9 April
Institutional Entitlement Offer closes	Tuesday, 9 April
Suspension lifted, trading resumes on an ex-entitlement basis	Wednesday, 10 April
Record date for the Entitlement Offer	7:00pm (AEST) on Thursday, 11 April
Settlement of shares issued under the Institutional Entitlement Offer	Monday, 15 April
Retail Entitlement Offer opens, prospectus and acceptance forms issued	Tuesday, 16 April
Allotment of New Shares issued under the Institutional Entitlement Offer	Tuesday, 16 April
Normal trading of New Shares issued under the Institutional Entitlement Offer	Wednesday, 17 April
Retail Entitlement Offer closes	5:00pm (AEST) on Wednesday, 1 May
Settlement of Retail Entitlement Offer	Tuesday, 7 May
Allotment of New Shares issued under the Retail Entitlement Offer	Wednesday, 8 May
Normal trading of New Shares issued under the Retail Entitlement Offer	Thursday, 9 May

The above timetable is indicative and subject to variation. SomnoMed reserves the right to alter the timetable at its absolute discretion and without notice, subject to ASX Listing Rules and Corporations Act 2001 (Cth) and other applicable law. All dates and times refer to Australian Eastern Standard time.

Additional Details

Further details of the Entitlement Offer are set out in the Prospectus provided to the ASX today. It contains important information including key risks and foreign selling restrictions with respect to the Entitlement Offer as well as a summary of the key terms of the underwriting agreement.

Advisers

Wilsons is acting as sole lead manager and underwriter of the Entitlement Offer. Gilbert + Tobin is acting as legal adviser to SomnoMed in relation to the Entitlement Offer.

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This release has been approved by the Board of SomnoMed Limited.

9 April 2024

For further information please contact

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About SomnoMed

SomnoMed is a public company providing treatment solutions for sleep-related breathing disorders including obstructive sleep apnea, snoring and bruxism. SomnoMed was commercialised on the basis of extensive clinical research. Supporting independent clinical research, continuous innovation and instituting medical manufacturing standards has resulted in SomnoDent® becoming the state-of-the-art and clinically proven medical oral appliance therapy for more than 860,000 patients in 28 countries. For further information, visit SomnoMed at

<http://www.somnomed.com.au>