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Compumedics Limited
Business Update: Appendix 4E Release

Current performance:

Revenue growth of 6% in constant currency (5% decline when reported in Australian dollars)

NPAT of \$0.1m or \$1.5m adjusted for unrealised FX losses. This compares to NPAT of \$0.4m and \$1.3m respectively in the prior year

Neuro diagnostic business grew ~76% globally following release of the Neuvo® long-term EEG monitoring (LTEM) system.

USA sleep and neuro diagnostic business grew ~20% over the prior year, in US dollars, as a result of the sales force expansion strategy and new Neuvo® LTEM product roll out

Business outlook:

Key product and territory expansion initiatives to underpin on-going growth in FY2012 and beyond

Leading Australia-based medical device company, Compumedics Limited (ASX: CMP), is pleased to announce a net profit after tax of \$0.1m on revenues of \$30.9m for the year ended 30 June, 2011. This compares to revenues of \$32.4m and net profit after tax of \$0.4m for the prior year.

Given the significant fluctuations in the value of the Australian dollar, relative to the US dollar and the Euro, Compumedics has chosen to show its financial results on an "as reported"

basis and also on a “constant currency” basis. The results on a constant currency basis restate the financial performance for last financial year (FY2010), using current financial year foreign currency exchange rates (FY2011). The constant currency basis also excludes unrealised foreign exchange gains or losses derived at the reporting period as a consequence of the revaluing the Company’s investments in its offshore subsidiaries.

The following table highlights the key financial performance measures on this basis.

	FY2011	FY2010	Variance
Revenues – as reported	\$30.9m	\$32.4m	(4.7)%
Revenues – constant currency	\$30.9m	\$29.2m	5.6%
EBITDA – as reported	\$0.7m	\$1.3m	(46)%
<i>Unrealised FX losses - restatement of investments in off-shore subsidiaries</i>	\$1.5m	\$0.9m	
EBITDA – less unrealised FX losses	\$2.1m	\$2.2m	(4.5)%
NPAT – as reported	\$0.1m	\$0.4m	(80)%
<i>Unrealised FX losses - restatement of investments in off-shore subsidiaries</i>	\$1.5m	\$0.9m	
NPAT – less unrealised FX losses	\$1.6m	\$1.3m	15%

Highlights and achievements for Compumedics “as reported” to the ASX for the year ended 30 June, 2011

- Net profit after tax (NPAT) was \$0.1m an 80% decrease from the prior year’s \$0.4m but the 5th consecutive profitable annual report to market.
- NPAT, excluding unrealised FX losses associated with re-stating the investments held in the offshore subsidiaries in the USA and Germany at period end, was \$1.5m. This compares to \$1.3m on a similar basis for the prior year.
- Earnings before interest, tax, depreciation and amortisation (EBITDA) were \$0.7m. This compares to EBITDA of \$1.3m for the prior year.
- EBITDA, excluding unrealised FX losses associated with re-stating the investments held in the offshore subsidiaries in the USA and Germany at period end, was \$2.1m. This compares to \$2.2m on a similar basis for the prior year.
- Revenues were \$30.9m for the year ended 30th June 2011. This compares to \$32.4m for the prior corresponding period. On a constant currency basis (that is restating last year’s revenues using this year’s foreign currency exchange rates) revenues were 5% higher than the prior year’s.
- Operating cash for the year was \$(0.2) m compared to \$0.5m for the prior year. The movement in operating cash during the year reflected a significant concentration in production activities, and consequently cash outflows, at the end of FY2011. This was to enable the business to ship over \$6m of orders in the month of June 2011.

- Despite the significant orders shipped in June 2011 the Company held substantial orders-on-hand at 30 June 2011 of approximately \$3.0m.

Core medical diagnostic device business separated from medical innovation business

Compumedics is also pleased to announce that it will commence, from this report to market, to disclose both aggregated and disaggregated financial performance attributable to its core diagnostic medical device business and its investment in technologies and products being developed in its medical innovation business. The Company believes the disaggregated information will provide the investment community with a clearer and more transparent picture of these two distinct activities currently being undertaken within the Company.

The Company's core medical diagnostic device business encompasses the technology and products currently sold globally for the diagnosis and/or monitoring of sleep disorders and neurological disorders, and for the monitoring of blood flow through the brain. It also includes products and technology used in advanced brain function research.

The Company's medical innovation business principally includes technologies and products for the treatment of sleep disorders and for the provision of a complete sleep diagnostic service to medical practitioner, the latter, through the Company's CardioSleep Services® brand. It also includes less developed technologies for driver fatigue monitoring and depth of anaesthesia monitoring.

	Earnings adjusted for unrealised FX losses					
AUDm	Medical diagnostic devices		Medical Innovation		As Reported	
	FY2011	FY2010	FY2011	FY2010	FY2011	FY2010
Revenues	29.8	30.9	1.1	1.5	30.9	32.4
R&D expense	3.4	3.9	1.3	1.0	4.7	4.9
EBITDA	3.1	3.8	(1.0)	(1.6)	2.1	2.2
EBITDA to revenue	10.4%	12.3%			6.8%	6.8%
Depreciation and amortisation	(0.4)	(0.3)	(0.6)	(0.1)	(1.0)	(0.4)
EBIT	2.7	3.5	(1.6)	(1.7)	1.1	1.8
Finance charges	(0.4)	(0.5)	-	-	(0.4)	(0.5)
Tax (expense)/credit	0.8	-	-	-	0.8	-
Net profit after tax (NPAT)	3.1	3.0	(1.6)	(1.7)	1.5	1.3
NPAT to revenue	10.4%	9.7%			4.9%	4.0%
Operating cash	0.7	2.1	(0.9)	(1.6)	(0.2)	0.5
Total assets	18.2	17.4	4.4	4.4	22.6	21.8

Highlights and achievements for the “diagnostic” medical device businesses for the year ended 30 June 2011:

- NPAT was \$3.1m a 3% increase over the prior year's \$3.0m. Compumedics' core medical diagnostic device business has been profitable on an annual basis for 5 consecutive years and has typically generated NPAT between 5% and 8% of revenues.
- EBITDA for the core medical diagnostic device business was \$3.1m. This compares to EBITDA of \$3.8m for the prior year. Compumedics' core medical diagnostic device business has typically generated EBITDA to revenues of about 10%, over the last 5 years.
- Revenues for the core medical diagnostic device business were \$29.8m for the year ended 30 June 2011. This compares to \$30.9m for the prior corresponding period. On a constant currency basis revenues were 5% higher than the prior year for the core medical diagnostic device business.
- Operating cash for the core medical diagnostic device business was \$0.7m compared to \$2.1m for the prior year. This reflects a substantial build-up of orders towards the end of FY2011 and the cash consumed in shipping these orders by 30 June 2011. Payment for which will be received predominantly in the first quarter of FY2012
- The USA-based medical diagnostic device business for sleep and neurology disorders generated year-on-year growth of about 20%, in US dollars.
- Globally the Compumedics group achieved 76% revenue growth in its neuro diagnostic business, largely as a result of the new Neuvo® LTEM device.
- The core medical diagnostic device business continued to hold significant orders-on-hand at 30 June 2011 of \$3.0m.

Highlights and achievements for the medical innovation business for the year ended 30 June 2011:

- NPAT for the medical innovation business was a loss of \$1.6m for the year ended 30th June 2011. This largely resulted from investment in products and technologies primarily for the sleep-treatment market and also the further development of the CardioSleep Services® business in the US. This result compares with a \$1.7m loss for the prior year.
- EBITDA for the medical innovation business was a loss of \$1.0m, largely reflecting the amortisation associated with the capitalised development costs for the sleep-treatment device, SomniLink® SPAP®.
- Revenues for the medical innovation business were \$1.1m for the year ended 30 June 2011. The revenues were generated almost entirely from the Company's CardioSleep Services® business in the USA. This compares to revenues of \$1.5m in the prior year.
- The patented SomniLink® SPAP® sleep-treatment device has received TGA certification in Australia and the CE Mark for Europe.
- Clinical trials for the FDA application for SomniLink® SPAP® are well underway with the FDA application to be submitted before the end of calendar 2011.
- The Company is in the process of transitioning complete manufacture of the SomniLink® SPAP® to our Taiwanese sub-contractor whom we have used over many years. So far an initial batch of 200 units has been produced.

Key Growth Opportunities

The Company believes current key growth opportunities derive from the following primary initiatives:

1. Continuing the current two to three-fold expansion of the Company's core sleep and neuro medical diagnostic device sales focus in the Company's key USA and European markets.
2. The entry of Compumedics into the global LTEM market with the world-wide release of its new innovative LTEM device, Neuvo®. The Company has secured initial sales of the device in the critical USA market and will continue to expand its market penetration in this and other major geographic markets.
3. The evolution of the home-sleep-testing (HST) market in the USA as a result of changes to USA private and government funding of HST and the expected growth in sales of small, limited channel sleep-diagnostic screener devices.

During the 2011 financial year, Compumedics commenced direct selling to end-user customers in Germany of its range of sleep-diagnostic systems and established a direct selling presence in France. The Company continues to expand its presence in France and is actively seeking a world-class sales representative for its German business. The Company believes it can add incremental revenues of between \$3m to \$10m per annum through the successful penetration and expansion into the important German and French markets together with a general enhancement of the Company's sleep-diagnostic distribution network across Europe.

The Company has also completed a major renewal and expansion of Compumedics' USA-based direct sales team. Further, near the end of FY2011 the Company also instigated a major renewal of its Australia-based direct sales team. The Company believes that similar incremental revenues similar to Germany and France can be achieved through the renewal of the USA and Australia-based sales teams.

As noted, Compumedics is currently in the early stages of entering the LTEM market, a new and incremental market for Compumedics, with the launch of its innovative LTEM product, Neuvo®. This is taking Compumedics into a pre-existing, but new market for the Company, which has estimated current annual sales of about USD250m. Compumedics is well positioned to capture a 5% share of this global market over the next couple of years. Initially, however, the Company will continue to work towards establishing USD6m annually in incremental revenues as it builds its market share to 5%.

Compumedics has the most sophisticated and advanced range of portable sleep-monitoring systems of any of the companies competing in these markets. The Company has been recognised as the leader in this field since winning the contract to supply the world's largest sleep study of its kind with portable systems; the Sleep Heart Health Study (SHHS) coordinated by the US National Institute's of Health. The SHHS has completed in the order of 20,000 sleep studies using Compumedics' portable monitoring equipment. Compumedics has been in the process of reinvigorating its USA HST business and expects some announcements relating to these developments in the near future. The Company has a consistent track record of winning technological awards for its new products.

The HST market in the USA is currently estimated to be approximately USD10m pa and growing at double-digit rates. Compumedics has to-date focused on its traditional customer

base and is currently implementing strategies it has formulated over recent times to aggressively pursue this emerging market with a low-cost but leading technology device derived from the Company's existing and award-winning Somté® device.

Financial outlook

Compumedics expects the identified key growth opportunities to deliver an increase in revenues and earnings in the current financial year. However, given the on-going uncertainty pervading the economic conditions of its key trading markets, particularly the USA, the Company is not issuing specific financial guidance at this time.

Compumedics expects growth beyond the current financial year to result from a combination of:

- Organic growth from the core businesses and the key growth opportunities identified,
- The expansion of the business into sleep-treatment markets, and
- Opportunistic mergers, acquisitions, or alliances that are identified as being complementary to the Company's existing product range and incremental to the financial performance of the Company.

Strategically, the Company is currently reviewing all business development options available to it to fully unlock the commercial potential within the range of technologies and products the Company currently has or is developing.

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About Compumedics

Compumedics Limited, founded in 1987, is a global leader in the design and manufacture of diagnostic technologies for sleep disorders, neurophysiology and cardiology. In 1987 Compumedics established Asia Pacific's first fully computerised sleep laboratory. Compumedics holds 80% share of the Australian sleep-diagnostic market, and has a major and rapidly growing presence in the US, European and Asian marketplaces for its sleep, neurological, and Doppler blood-flow diagnostic monitoring devices. **In 1995** the company was selected to supply equipment to the US Sleep Heart Health Study, the world's largest sleep study of its kind, currently exceeding 14,000 studies with 20,000 patients scheduled by 2008. With headquarters in Melbourne, Australia and offices in the United States, and Europe the products are distributed in over 50 countries. **In 1998** Compumedics was awarded the overall Australian Exporter of the Year. **In 2000** Compumedics was listed on the Australian Stock Exchange. **In 2002**, Compumedics acquired US-based Neuroscan - the world's leading supplier of instruments for brain-research. In the USA- the world's largest medical device market - Neuroscan holds around 90% of the market for brain-research products. **In 2003** Compumedics was awarded the Frost & Sullivan Award for Market Expansion Strategy. **In 2004**, Compumedics acquired German-based DWL Elektronische GmbH, enabling Compumedics to expand its global operations into the neurovascular and cardio-vascular diagnostic fields. **In 2006**, Compumedics was awarded the Frost and Sullivan Technology Leadership award for the innovative Somté recorder product. **In 2007**, Compumedics and Chairman were inducted into the Victorian Manufacturing Hall of Fame. **In 2008** the DWL division received the top 100 German Innovation award. With 20,000 systems installed globally across the finest hospital, universities and clinics the Compumedics sales have grown more than 4 fold from \$9 million (1999) to \$39 million (2008). **In 2009** Compumedics was awarded a design award for its Graef® PSG/EEG premium laboratory based product.

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