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Daily news on ASX-listed biotechnology companies

Dr Boreham's Crucible: Compumedics

By TIM BOREHAM

ASX code: CMP

Share price: 29 cents

Shares on issue: 192,217,894

Market cap: \$55.7 million

Executive chair: Prof David Burton

Board: Prof Burton, David Lawson, Rod North, Christopher Barys

Financials (year to June 30, 2025): revenue of \$50.9 million (up 2%), earnings before interest tax depreciation and amortization \$2.94 million (up 9%), net loss \$1.27 million profit (\$338,000 loss previously), cash of \$2.69 million (up 42%), borrowings \$13.1 million (up 71%).

Identifiable major shareholders: D and DJ Burton Holdings (Prof Burton) 51.1%, B&R James Investments 2.6%, Beijing Bestmed Tech 2.55%, Medigas Italia 2.25% (Italian distributor).

For veteran brain and health diagnostic outfit Compumedics, it's time to deploy what founder, CEO and chair Prof David Burton dubs the "bunker busters".

The hitherto impenetrable target is the US capital market, which the Melbourne-based company wants to tap in order to improve its stubbornly low valuation.

“Trading liquidity remains constrained, and the gap between Compumedics’ intrinsic growth trajectory and its market valuation persists,” the company says in this week’s annual report.

Compumedics ‘weapons’ are new directors and executives who understand US investors and have an entrée into potential big-ticket strategic partners.

The company last week fired the first salvo by appointing a new US, based non-executive director, Christopher Barys.

“It’s been a long time coming,” Prof Burton says.

Mr Barys was a former head of Johnson & Johnson and Medtronic businesses, building them into multibillion dollar enterprises.

“We received some phenomenal resumes,” Prof Burton says.

He expects the company to make further appointments aimed at tapping the US market for investor support and a strategic partner.

“We know we have a good level of interest and traction, but we need to accelerate that.”

Prof Burton says the company expects to achieve more than \$100 million of revenue in coming years - and that’s the level at which US institutions generally take interest in a company.

38 years young

Compumedics’ core products range across sleep diagnosis, clinical electro-encephalogram (EEG) scans, brain monitoring and ultrasonic blood-flow systems.

With a background in sound recording, Dr Burton founded Compumedics in 1987 - just before the share market crash.

In the same year, the company designed and installed the first fully computerized Australian sleep clinic, at Melbourne’s Epworth Hospital. Compumedics listed on the ASX in December 2000 amid the embers of the tech boom, having raised \$15 million at 30 cents apiece.

Compumedics’ established products include Grael and Siesta for sleep, Neuron for neurology and Synamps RT and Curry for brain research.

The company’s flagship product is the Orion Lifespan Curry MEG (magneto-encephalography) device, the neurological equivalent of the now common magnetic resonance imaging (MRI) scanners.

But the biggest short-term earnings driver is likely to be its Somfit home sleep testing assay, which the company has sold in the US since early 2023 (see below).

Somfit captures eight physiological data points, compared with 32 for a full diagnosis at an overnight sleep clinic.

Released in late 2023, a variant called Falcon has 12 data points.

Prof Burton outlined Compumedics' global manifesto in the annual report.

A key driver is that the US is the company's biggest market, following the release of its reusable Somfit home sleep testing (HST) device last year.

In early September, the US Food and Drug Administration approved a single-use variant, Somfit D.

Plugging the valuation gap

Prof Burton says the market values Compumedics at one-times annual revenue, but on conservative peer metrics a four-times multiple would be more apt.

On more aggressive "premium" estimates, the multiple is up to eight times.

Or should it be even more? He says "quality" software-as-a-service companies generally trade at 10 to 20 times their annual revenue.

Exhibit A is Itamar Medical, acquired by Zoll Medical Corporation for \$US538 million in 2021. Itamar had \$35 million of revenue, mainly SaaS sales and built over decades.

Exhibit B is the formerly Nasdaq-listed neuro and sleep diagnostics peer Natus Medical, acquired by the French private equity group Archimed for \$US1.2 billion.

Somfit US potential is the real sleeper

Prof Burton says the \$2.1 million of Somfit sales are worth more than that because of the repeated software-as-a-service annuity style revenues.

The FDA approved the multi-use Somfits in late 2024 and the single-use Somfit D last month.

Prof Burton says the Somfit D approval happened "surprisingly quickly and has accelerated things beyond what we anticipated".

The company cites a \$20 million pipeline of US Somfit sales, and assesses the US home sleep testing market at \$US240 million a year, across four million tests.

Chief financial officer and director David Lawson says single-use tests currently account for 50-60 percent of the market "and will probably climb higher". The company expects to gain 10-30 percent of this single-use market over the next two years.

Meanwhile, Somfit accounts for 75 percent of the Australian home sleep apnoea testing market, through a tie-up with Philips Pharmacy Sleep Services (which supplies Sigma Health's Amcal chemist chain).

Compumedics has also won work with an unnamed big pharmaceutical company to support sleep studies, as well as deals with contract research organizations.

Prof Burton hopes for "crunchy larger deals with these groups".

Orion's MEG-a potential

Magneto-encephalo-graphy (MEG) has been around for some time.

A variant, Orion MEGs feature dual helmet dewars designed for both children and adults.

The problem with the full dewars - the "Marj Simpson hairdryers" - is that the strength of the signal is reduced because the smaller head of a child creates a bigger gap between sensors.

An added advantage is that the Orion MEGs use virtually no helium, which prevents downtime created by the noisy phase when the gas is recycled.

Prof Burton says that relative to MRI, MEG is the best measurement for higher-speed brain scanning.

MRIs are more about metabolics (such as blood oxygen level variations), while MEGs monitor electronic brain signals, scanning for disorders such as autism, Alzheimer's and Parkinson's disease, epilepsy and traumatic brain injury.

"These are the big mental neurological health disorders of the modern age and we have the world's breakthrough technology," Prof Burton says.

To date, Compumedics has sold four MEGs to Chinese academic health institutions, with the first up and running at Tianjin Normal University.

These sales generated \$20 million in revenue over the first two years, \$15 million yet to be recognized in the accounts.

The company is poised to sell Orion MEGs in the US, which accounts for roughly half of the MEGs installed globally.

One problem - and no small one - is that MEG scans are not yet reimbursed.

Prof Burton says there's a Catch-22 element to achieving this "inflexion point".

That's because the company would need to enlist a large medical technology company to invest a large amount of cash to generate the requisite supportive data. But without reimbursement, they would likely be reluctant to do so.

Finances and performance:

Prof Burton describes the year to June 2025 as a “record for execution and growth”.

Overall revenue edged up two percent to \$51 million, with earnings before interest tax depreciation and amortization (Ebitda) climbing nine percent to \$2.9 million.

Compumedics’ net loss was \$1.27 million, compared with a \$338,000 deficit previously.

However gross margins increased to 55 percent, helped along by tighter cost controls improving the “operational engine”.

Somfit and related software-as-a-service revenue was up 49 percent to \$6.7 million. From a standing start, last year, Somfit reusable device revenue stood at \$2.1 million.

The company has record sales orders of \$63.4 million, up 22 percent year-on-year.

Management has guided to current-year revenue of more than \$70 million with \$9 million of Ebitda.

Compumedics is likely to maintain its research and development budget at around \$6 million or 11 percent of last year’s revenue.

But as turnover increases, the proportion of revenue devoted to research and development thus declines.

Over the last year, Compumedics shares have traded between 36 cents (August 1 this year) and 25 cents (on various occasions, the last time being July 11 this year). The stock peaked at 85 cents in December 2019.

Did someone say tariffs?

Glad you asked.

Compumedics builds its MEGs at a South Korean facility, which it hopes to double or even triple in size.

The Somfit Ds are made in China and the reusables are made in Melbourne, but the company plans also to make at least some of the Somfit Ds here.

Mr Lawson says the 10 percent tariff on Australian goods would not affect the company “significantly”.

As for China and South Korea, “we can live with it and are working on ways to address that”.

The company would be open to building a US plant if volumes warranted that action.

Mr Lawson says Intermar make its units in Israel, which have been hit with a 26 percent tariff.

So, in competitive terms, Compumedics isn't at a disadvantage.

"Everyone has been adjusting their prices accordingly," Mr Lawson says.

"All of our competitors are dealing with the T word".

Overhauling the register

Prof Burton hopes the new directors can introduce Compumedics to potential new off-shore shareholders, rather than the company relying on its loyal but "rightly sceptical" local investors.

As we said, low liquidity is an issue: Prof Burton holds about 53 percent of the shares on issue, while the remaining top 20 account for a further 25 percent.

One obvious scenario is for Prof Burton to sell down, in order to introduce a new strategic holder.

"At appropriate valuations I'm sure these things will be considered," he says.

"My priorities are immediate realization for patient shareholders, as opposed to slinging the shares cheaply and diluting shareholders."

Dr Boreham's diagnosis:

Prof Burton channels US President Harry Truman when it comes to Compumedics' stubbornly low valuation: the buck stops here.

"We have had a fairly passive board - to put it kindly - and I take full responsibility and need to fix that with the Burton bunker buster."

(To date the board has been able to fit in a telephone box, consisting of Prof Burton, Mr Lawson and PR guru Rod North).

Prof Burton also argues Compumedics has started to evolve from a scientifically oriented company, to being more commercially savvy.

"We have business development people with 20 or 30 years' experience at the likes of Philips and Respirationics."

Meanwhile, management remains confident the MEGs take-up can follow the trajectory of MRI adoption.

In the early 1980s there were fewer than 100 MRIs; today there are more than 34,000.

If that happens, Compumedics' valuation will speak for itself.

The company assesses the US opportunity at \$US150-300 million a year for Somfit.

But in building a meaningful US presence, Compumedics needs to deploy its bunker busting bombs strategically and not simply add layers of costs for little reward.

Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort. As far as bunker-busting bombs go, he exhausted his armory some time ago.