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EDITED TRANSCRIPT

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OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

Mick Farrell *ResMed Inc - Chief Executive Officer & Chairman of the Board*

Carlos Nunez *ResMed Inc - Chief Medical Officer*

CONFERENCE CALL PARTICIPANTS

David Low *JP Morgan Chase & Co - Analyst*

PRESENTATION

David Low - *JP Morgan Chase & Co - Analyst*

Good afternoon, everyone. My name is David Low. I cover healthcare for JP Morgan in Australia. And with us this afternoon, I have the pleasure of introducing Mick Farrell, Chairman and CEO of ResMed. Mick is going to do a presentation, and there'll be a little bit of time at the end for Q&A.

Over to you, Mick.

Mick Farrell - *ResMed Inc - Chief Executive Officer & Chairman of the Board*

So that was a subtle hint from David to make sure I leave time for Q&A at the end. So, I think we have 40 minutes. I'll try to finish in 30, so we have some time for questions from the audience and/or from our sell-side analyst here, David Low from JP Morgan.

Well, look, first, I'd like to start out with saying I want you to take away three points from my presentation today. Number one, that ResMed has a clear, market-leading value proposition. We have strong growth drivers, and we have an incredible market opportunity.

Number two, that ResMed has a sustainable competitive advantage with a digital health ecosystem that has leadership globally, and a strong, deep, and talented management team. And hopefully, you saw us at our Investor Day at New York Stock Exchange, ringing the bell, September 30, and you saw probably 10 of my executives there. Today, I have one, which is Dr. Carlos Nunez, who's going to join me for the Q&A. We also have a great culture.

Number three, that ResMed has an exciting five-year strategy, exciting ResMed 2030 strategy. ResMed is an innovation machine, hardware, software, solutions, and pathway innovation. We change the basis of competition on a regular basis in our industry. We make the smallest, quietest, most comfortable, most cloud-connected, and most intelligent MedTech devices in the respiratory MedTech field period. And we make more intelligent healthcare systems, and I'll talk about that.

Here's the disclaimer. I have my lawyer in the front row somewhere. So, he wrote that. You can blame him. Please read that at your leisure.

Only a couple of takeaways from this sort of summary slide about ResMed. Trailing 12 months revenue around \$5 billion. We invest 6% to 7% of that in R&D. So think \$350 million into the smallest, quietest, most comfortable, most connected, and most intelligent hardware and software.

Market cap is around \$33 billion today. We're the number one player in sleep apnea therapy in all 140 countries that we operate in worldwide. We are the global leader in connected health across all of MedTech. We have 27 million, 100% cloud connectable medical devices that we sold into 140 countries worldwide. And I'll walk through some of our big data work. We have over now 20 billion nights of respiratory MedTech data in the cloud.

An interesting bottom line statistic there. I think this is top tier, top quartile, probably top 10 percentile of all of MedTech at 33% net operating profit margins on a non-GAAP basis, even 30% on GAAP basis. So, I'll walk through our sleep health, breathing health, and residential care software businesses.

But first, I want to talk about our total addressable market. One in four people on the planet have a chronic disease that ResMed is uniquely positioned to treat. There are over 1 billion people worldwide who have sleep suffocation. I like using the Greek word apnea - without breath, as well, but suffocation is a bit more visceral.

There's 860 million worldwide who have difficulty getting to sleep, staying to sleep, and waking up with refreshed sleep, so they have insomnia, chronic insomnia. The overlap of those two is called COMISA, comorbid insomnia and OSA, and that's a big area. I could justify all our investments in insomnia just by the adherence improvements we'd get in that little overlap or that big overlap between sleep apnea and insomnia.

And then we have chronic obstructive pulmonary disease, almost 0.5 billion worldwide, 480 million people have diseased lungs. It's not just smoking. It could be DNA, it could be exposure to different chemicals and parts of the world where there's pollution, but it's also genetic.

That is literally called overlap syndrome by the doctors. They weren't very inventive on that, but overlap syndrome where you have diseased lungs and problematic upper airway issues is a huge issue, and we have the best technologies in noninvasive ventilation to treat them.

The bottom right-hand part of the slide, the bottom right-hand corner, it should be probably bigger. And we haven't fully quantified it. It doesn't have a number on it, but this is people who need world-leading healthcare technology at home. People who want to age in place. We have aging populations in all the Western world, many countries worldwide.

And people don't want to go to a nursing home, hospice or worse, a hospital, where there's E. coli in the food, staph infections in the corridors. You want to have treatment at home. And it's a huge area for us. We invested in Brightree and MEDIFOX, world leader in software for residential care software.

So beyond the total addressable market opportunity, there are certain megatrends, I would say, in the market that are changing the way the world operates in consumer tech and in healthtech and ResMed is right in the middle of that. Number one, consumers are more focused on their personal healthcare and tracking their personal healthcare and well-being than ever before.

We'll talk about Apple and their latest Apple Watch that has not only an EKG from four years ago, but now has the ability, an FDA-cleared ability to detect sleep apnea in patients with that wearable. Samsung beat them to the mark with FDA de novo clearance mid last year and launched in the Galaxy watch that capability. So, consumers focused on healthcare like never before.

That intense focus of not just Apple and Samsung, but it's also WHOOP, Oura, Garmin, Google's Fitbit, they're all having sleep architecture and sleep assessment. I made a prediction at the Morgan Stanley Conference that by before the end of 2024, Apple would launch an FDA-cleared one. They did it actually the week after.

I don't think it was listening to me. I don't think Tim Cook was listening into my presentation, but we knew it was coming because they had sleep architecture and they had the ability, even just through actigraphy to get there. My prediction now here at JP Morgan is that before the end of this calendar year, we'll see at least one of Google's Fitbit, Oura, WHOOP, or Garmin, maybe two of those that will have sleep apnea detection capabilities, not just sleep architecture that they have right now. That's the second megatrend.

The third one is that payers and providers, and you've seen this all day at the healthcare conference, everyone is talking about this. Payers and providers are focused on preventative care. Right at the moment, we have a sick care system in this country, where we wait until you're really sick and we take care of you in an ER or a high-acuity, high-cost area.

ResMed, 95% of our revenues, profits and business is focused on outside hospital care, treatment preferably in the home, lower cost, low acuity settings. I'm not going to go through all this. You can read through all these are available at investor.resmed.com, and they're also streaming here on the JP Morgan website. But there's massive pressure on our global healthcare system. We have an aging population.

There's a need to move from high cost, high acuity to low-cost, low acuity care, preferably the home, and there's an increase in virtual care investments. There's an increase in the use of AI/ML and Gen AI. Our Chief Medical Officer, who might also be our Chief Digital Nerd Officer, was at CES on stage with the CMO of Samsung and was listening to the Jensen Huang's latest push on Gen AI and AI across all of tech.

I think healthcare is the least efficient delivery system on the planet. And I think the ability for us to bring ML and AI and Gen AI capabilities is going to take lots of waste out of the system and hopefully reduce costs and improve outcomes. The increase in virtual care goes beyond that though, it's also about interoperability.

So ResMed has 20 billion nights of respiratory medical data in the cloud, but it's not like we have a data lake. I'd actually say we have a data well, really deep data in the field of sleep apnea, COPD, and insomnia. But those data can be liberated and produce great outcomes when combined with other data. So if you're on the Apple HealthKit system or you're part of Epic and Cerner, and we have an API call from our system to that, you can stop treating just a disease like sleep apnea, or COPD, but treat a person who happens to have, let's say, sleep apnea, cardiovascular disease and diabetes.

I think that opportunity of interoperability is something that is underleveraged. So ResMed operates at this juncture of MedTech and digital health. And I think I get questions from time to time. It was 2016 that we bought Brightree.

Our market cap at the time was around \$8 billion in 2016, and we invested \$800 million, 10% of the market cap of the whole company, 10% of the farm, we're betting on this residential care software for home medical equipment customers, our customers. And I think a lot of people were skeptical that a MedTech company could invest in software and really take it to the next level. Our market cap this morning is around \$33 billion.

So 10% of that, could I sell our software division for \$3.3 billion to some big private equity company? Absolutely. They probably should pay double that. But would we? Absolutely not.

The synergies back to our core MedTech business are huge. Top left-hand corner of this slide, just our device and accessory resupply. My lawyer tells me not to truly quantify this, but many hundreds of millions of reasons that there's top frontline synergy between our mask and accessory resupply and our core business of sleep apnea is linked to Brightree resupply, SNAP technologies.

And we purchased a tuck-in SNAP and put it on top of Brightree just before COVID. It was good timing with everyone going virtual and all that move to taking care of people in the home and people focused on respiratory medicine because of COVID. We are now here in 2025 going to launch SNAP technologies for all, not just people, the 65% or so of HMEs that are using our platform to run their ERP, Brightree.

But if they're using one of our competitor Bonafide or one of the smaller competitors out there, they will be able to put what we're calling SNAP Lite or SNAP for all, and we're going to have that resupply technology that goes across. That's one of the areas of synergy.

The other area of synergy is pretty obvious. There are a lot of people in outside hospital care and many of them are underdiagnosed or not diagnosed at all for sleep apnea and COPD. This is the CEO's anecdote part of the talk, but I was in Germany last year and I was traveling through our MEDIFOX DAN residential care software group. They do home nursing, so think nurses coming to your home in Germany, and they also run nursing homes themselves. And I was walking through a 500-person nursing home, 500 resident nursing home.

Firstly, I noticed how joyful it was. There were games going on. It was kind of like the next level of life sort of going back to kindergarten level. People are seeing and engaging. It was incredible to see the joy that was going around. But I was walking around with the owner.

Obviously, I don't speak German, I speak English and a bit of Spanish. But I was watching the engagement, it was incredibly strong. And I just asked the owner how many of these amazing happy people are using ResMed's core technology, sleep apnea treatment, our CPAP, APAP or bilevel? He said, "oh, no, your therapy is fantastic, we have one!".

Out of 500, I mean, the prevalence rate there should be 20%, should have been 100 people on our therapy. And so, the synergy opportunity for us, we didn't just buy MEDIFOX and say, screen everyone with a STOP-BANG. That's an 8-question questionnaire where you can pretty 80% sensitivity find out if someone has obstructive sleep apnea or not. But we will be rolling out that type of thing over time. That's another area of synergy.

So many back-end synergies, cybersecurity, privacy, interoperability. We learned so much about Brussels laws on GDPR from our German software businesses and European software businesses. We can bring that up because for better or for worse, a lot of these privacy laws and cybersecurity is going to go global. And I think it's actually a sustainable competitive advantage for ResMed, what we do across these two parts of our business.

I'm not going to walk through all this except to say that we put the person at the center. We put the patient at the center of everything we do and that all of our software, hardware revolves around them. And it revolves around this, improve the patient experience. Patients have a choice. They're consumers, too. They can choose to show up to that doctor or not.

So make it smaller, quieter, more comfortable, make that pathway easier to get screened, diagnosed, and treated. But secondly, you got to pay the piper, lower the cost of delivery. Just by using our technology, home medical equipment providers can lower the labor cost of setting a patient up on CPAP by 50%. So, I love Hippocrates and people doing no harm and improving, but I also love Adam Smith because if you save the HME money, they're going to use your product.

And the third one is obviously improve the long-term chronic disease outcomes. So, by treating the core sleep apnea or COPD, we can actually improve other chronic diseases. And we peer review and publish these data. We can show that we can lower blood pressure. We can lower HbA1c. We can lower the risk of a stroke or a heart attack just by treating the respiratory medical issue because these chronic diseases are related to each other.

So I talked about this earlier. We've got a boat load of data. Actually, this is bigger than a boat load. This is like a bunch of huge ocean liner ships out there. And you think about what you can do with 20 billion nights of medical data in the cloud.

I call your attention to the bottom left corner of this slide. 285, that's how many calls per second go in and out of the ResMed ecosystem. So, if you operate Epic or Cerner or Allscripts, right, in your hospital, you can get our data and can be inside your system. So that patient is fully treated, not just for their sleep apnea, but across the waterfront. And same way, the other way back around, we just launched for consumers, the ability they get their myAir app, the bottom right-hand corner there.

8.8 million people have chosen to download the ResMed app, so they can gamify their own sleep apnea experience. They check every day for their myAir score to see how well they slept. We give a score out of 100 based on how many hours of sleep you get, any apneas or any wake-up episodes or any mask leak and so on. And it's incredible, the number of people that gamify themselves from that.

What else can we unlock? Probably in Q&A, Carlos will get to the fact that we do a lot of peer-reviewed published evidence, we get together key opinion leaders. And in this field, it used to be -- I saw the gentleman -- the biotech company just ending up before, it was all that for us, randomized clinical trials, \$10 million, \$100 million, seven years and then seven years, there's a big reveal.

Do we have yes or no in this heart failure group? We're now running studies like that every quarter, and it's getting together a bunch of AI/ML analytics, it's having a hypothesis, and running it through the data. So, the end on our studies isn't 200 or 2,000. It's 100,000. I'll show one later.

It's 170,000 or it's 1 million, N equals 1 million. This real-world evidence and real-world data. It's the future of clinical research and ResMed is right on that cutting edge. So, this time last year, we had just pivoted ResMed, and I can tell you the honeymoon is over, but we're still very happy. We've had the first baby, and we're very excited about ResMed's 2030 operating model.

I call it that, because we truly pivoted the whole company in line with our 2030 strategy. We are product led. What does that mean? That means we have our first Global Chief Product Officer; and Justin and his team are laser-focused on one metric, increased product velocity.

And velocity is speed plus direction, right? So, it's not just faster, but it's faster and in the right directions. And you've seen that with our F40 mask, our AirTouch N30i, that I'll show later here. And obviously, our AirSense11, the world's leading platform and the AirCurve11 that builds on that.

The second part of our 2030 operating model is customer centric. Everyone talks about that. But what's the metric for you in this audience? Increased profitable growth. You've seen us improve our gross margin to 300 basis points this last 12, 18 months. That comes about when you look at both sides of that.

Our Chief Revenue Officer, thinking about pricing and appropriate pricing and some price increases in our software and when costs went up, on our hardware, but it's also about our Chief Supply Chain Officer, who just joined us. He's Army, was with Kimberly-Clark, Hasbro, joined us fast-moving consumer goods, some of the learning you can get from these lower margin areas. It's incredible to think of the COGS and OCOGS we can take out but measure us on success for this one with increased profitable growth, top line and leverage to bottom line.

And thirdly, brand enhanced. The ResMed brand, I don't know. What's our physical assets worth? I don't have my CFO here, but I'm going to guesstimate somewhere around \$7 billion, \$5 billion to \$7 billion. So, if the market caps \$33 billion, how much of that \$25 billion delta is the ResMed brand? That decision, that moment of truth, when a consumer in Singapore or Australia chooses ResMed at an online store or a real retail store.

When a physician in this country writes a prescription, 35 years of trust. Is ResMed doing the right thing when no one's watching? But it's really tied in there for that. And what about a payer provider, we lower their costs, improve outcomes, but also, it's that interoperability that we help them do the rest of their business well. So, you'll measure us that not just on increased brand awareness and Net Promoter Scores amongst physicians, providers and patients and consumers.

We measure it on the ROI of each marketing experiment. When I talk about demand gen capture and curation with Eli Lilly driving people into PCPs for Zepbound, you'll know that every time we do an experiment, yes. We want the primary care physician Net Promoter Score. And ResMed brand wants to go up.

But we also need ROI from that metropolitan statistical area, that GLP-1 prescriber that's also linked to home sleep apnea testing. I'm not walking through all of this, David. You'll be happy to know.

We did a deep dive for those of you who want to nerd out on our 2030 strategy. We did a four-hour presentation. Our Chief Strategy Officer, who is in the front here, Hemanth Reddy, went through with a lot of detail. I'm going to focus on our vision, mission, and our global impact.

Our vision is to -- we envision a world where every person can achieve their full potential through better sleep, better breathing and with healthcare delivered right where they live and preferably in their own home. Our mission is to create life-changing healthcare technologies that people love.

There's a lot of policemen downstairs. It's hard to find a lot of love here in the JP Morgan Healthcare Conference, right? It feels very secure in our little area, but if I'm wearing the ResMed brand as I go through TSA checking in at the airport, I often get a take or a double take from someone in the line in front of me. And every now and again, you know when they're going to do it.

They look over and they go, are you ResMed? And I say, yes, I am. And they said, I love your product. It changed my life or saved my husband's life. And it's given us back our mornings our lives or saved my job or it saved my marriage.

And that's the reason ResMed exists because my dad, Peter Farrell, was talking to an inventor at the University of Sydney. And he said to patient zero, Eddie Merck, the contraption was huge. It was like a swimming pool pump and a glue on like Rube Goldberg mask, and he said, why are you wearing this thing? It's got like cirrhosis, like stick-on mask, why are you wearing this? He said, this CPAP, it saved my job, it saved my marriage, it saved my life. We get that.

And so what we're trying to do in our ResMed 2030 brand here is we do create life-changing healthcare technologies that people love. We're trying to encapsulate that in the brand. And you'll see that come out in our advertising and our marketing materials over 2025 and through 2030.

So the last thing on this is our global impact. We helped 144 million people in the last 12 months with the CPAP, APAP, bilevel, a mask system, a cushion or a digital health product like myAir, or AirView, or Brightree. Our goal is double-digit growth of the volume of patients that we're impacting over these next five years.

And our goal, it's a stretch goal, but our goal is to help 500 million people in 2030. So look, I mean, everybody everywhere is talking about AI/ML, like Jensen was earlier last week at the Dome there in Las Vegas. I was in a room of 20 CEOs or less with Jensen about 10 months ago with one of my Board directors is in the front row here. I made the mistake of asking a question.

And I asked the question, I said, well, Jensen, how do you think about the engagement of your Board and your management team and strategy? And I didn't finish strategy. He said, Mick, you're wrong. I said, Jensen, in all fairness, that's an open-ended question. There is no right or wrong in an open-ended question. He said you're wrong to think you engage in strategy at some board meeting, 90 days.

You said, it changes in milliseconds. It changes with every conversation, and I was red in the face, and I was embarrassed with some of my peer board members. But I actually thought and went back to the team and said, we're wrong to say 2030 strategy is a sort of update here, update there.

It changes with every conversation with every acquisition. With every discussion here at JP Morgan, someone is doing something different. And someone, someone is going to apply ML and AI and Gen AI in your vertical. And if you're not doing it the best, someone is going to take your position, and they'll be there.

And so ResMed is not going to be the world leader in ML/AI and Gen AI, but we are going to be the world leader in applying market-leading ML/AI and Gen AI in the field of sleep health, breathing health, and healthcare software in the home. We are already the leader, and we are going to continue to be the leader, and we're going to invest aggressively in this space.

Again, the details of this you can get from our Investor Day, and I want to make sure I leave time for questions. I got seven minutes left here on the prep remarks. But look, yes, we're going to create products that people love. We're going to focus on driving this. The one thing I'll say on this slide is I think here at ResMed, we have a once-in-a-generation opportunity to drive demand gen, demand capture, demand curation, and demand conversion in the field of sleep apnea.

We have two of the world's biggest pharmaceutical companies, one of them laser-focused with an IFU. The other one will follow. Novo will follow Lilly here. But Zepbound got an indication for use to what I'll call half-treat sleep apnea. Average AHI went from 52 to 26. So, they can half treat it.

Think suffocating every three minutes to now suffocating every 4 minutes or 4.5 minutes. It still needs to be treated. But they've got an indication for use. We don't know if CMS will give them reimbursement or United, Blue Cross Blue Shield, but just that indication for use, if there's any payer that gives them, they're going to drive patients into the primary care physician like never before.

They do DTC advertising, like MedTech can't dream of doing what Lilly and Novo can do with brand names that you know, like Ozempic, Wegovy, this one on Zepbound. So Zepbound now has an indication for use to partially treat sleep apnea. If they do what we think they're going to do, which is probably not blanket the 350,000 primary care physicians, but laser focus on the 10% of them that are high GLP-1 prescribers like on Zepbound and beyond.

So 35,000 primary care physicians. What ResMed is going to focus, not only even on all the 35,000 there, we're going to say, what 30% or 10% of them, so 3,000 to 10,000 primary care physicians who are, not only high-volume GLP-1 prescribers, but they're also linked already through referrals to a home sleep apnea testing network.

They have a pulmonary clinic or an IDTF, like VirtuOx, GEM, Ognomy, one of these players already linked up. They've already sent referrals. And all we've got to do is catalyze those referrals and make sure the IDTF has enough ResMed ApneaLinks or ResMed, the little wearable we have called the NightOwl, a little wearable just the size of my finger that can diagnose sleep apnea. But we're kind of open to whichever diagnostic, we're doing those ones home sleep apnea testing to drive the market.

But if they use Nox or a Zoll, we don't care. But what we want is a positive, high-quality diagnostic. So, if you get that patient, they get a prescription for both the gold standard, which is ResMed CPAP, but then also the GLP-1 because that combination - sleep apnea treatment has always been about weight loss and CPAP. It's never been either or. It's always been both and, and we now have a new technology there.

But this is a once-in-a-generation opportunity. So as Lilly starts doing that, advertising, bringing people into the primary care physicians. ResMed is going to be there to capture, convert, and drive those patients through the funnel. I think it's a longer time horizon play with Apple, Samsung, and Google's Fitbit in that they're a little more conservative post the experiment on EKG in sending too many patients with not quite AFib into the generalist cardiologist.

So they have set this specificity very high, particularly Apple, 95% specificity on the Apple Watch. So, if that thing says possible sleep apnea, people, it's really almost definitely probable sleep apnea. 95% specificity means only 5% false positives. So, if it says it, you've got a 95% chance that you actually have it. And so, our job then is to create a digital pathway, and that's what we're going to do.

And I'll talk about that as we go through the fiscal year. I talked about our market-leading platforms. I mean this is it. It's the AirSense11. It's the smartest device on the planet for this space. It has over-the-air upgrades.

So if software had to be updated 10 years ago, you had to go and collect all those devices and then upgrade the order, set algorithm or any changes that were made, we can now do those over the air. There are two-way comms. You can actually communicate with the patient, if they click that it's okay to, but if a doctor wants to communicate, they can send messages there.

The stat that I think is most interesting is the one about halfway down about the uptake of MyAir. So, the AirSense10 platform, which actually, by the way, still is the number two Net Promoter Score in the planet. It's the second-best platform, our last generation.

It had a 25% uptake. 25% of patients would sign up for MyAir, our app. AirSense11 has a 50% rate. I was with someone from the buy side, they're like, Mick, that means you're leaving 50% on the table. I'm like, you're right. It's double what we were, but there's a lot of opportunity to go. But the fact that this launches with the QR code and has the ability for you to immediately as part of the setup to see videos and get engaged.

It drives up adherence. You see that 87% number. That's when it's in AirSense11, doctors using AirView, HME is using Brightree and the patients using myAir. That gets you to 87% adherence, 9 out of 10 patients using an optional, right? You get the choice to use it or not every night on CPAP. 90% adherence at 90 days is through the roof.

The only other thing I'll call out on this is PROMs, the patient-reported outcome metrics. We can have clinical research and feedback that doctors and population health management across groups with this platform.

This one I'll show -- this is a lot better in a one-on-one when I can hand around. I thought about handing it around, but there's a lot of people in this room. But ResMed has been around for 35 years.

And I'll say it this way, you sleep on cotton sheets, maybe some of you rich people here sleep on satin, but cotton sheets. You put your head on a cotton covered pillow, but for 35 years, ResMed has sold you amazing liquid silicone rubber, LSR - plastic basically, natural plastic that forms the seal around your nose and your mouth. So, we invested seven years with people from the fabrics industry.

Actually, our head designer, she came from the lingerie industry in Singapore. Seven years, we worked on getting a fabric that could fit and mold to a mask. And it was actually the most difficult part was the manufacturing engineering. We're a multi-cavity tool pumping out liquid-like molten LSR. And creating these single mold tubes could then put on top of it, fabric that would then sit there.

The part that touches you know is the most sensitive part and it's the most comfortable. So, you see all the 9s down there, one 8, but this is one of the best rated from our clinical trial of patient acceptance, consumer acceptance, respiratory therapy acceptance and physician acceptance. So, this thing, early days, it's just one quarter out there. But I talked about changing the basis of competition. It's not just about the software and what we're doing.

It is that, but it's also in our core business of smaller, quieter and more comfortable devices, smaller, quieter, more comfortable, less intrusive lifestyle-based masks. And I think this one changes the basis of competition. And if that works on nasal, the N30i is the nasal category, then it will work with the pillows, the even smaller ones that just look like nasal cannulas. And it will also work with some of the sicker patients. We have to ventilate and some who are mouth breath is about 30% with full face masks.

So watch this space, our first product in that. Okay. I've got 30 seconds to meet my 10 minutes thing. I'm not going to walk through this N equals 176,000 patient study. All I'll highlight is -- with my lawyer in the room, I'm allowed to say this.

CPAP is a matter of life and death. You can reduce the mortality rate by being adherent to CPAP by 39% within three years. And this is a study done with the French social security system, I think Medicare and France. We overlapped our data, worked with the French government, and peer-reviewed and published these data at the European Respiratory Journal. P-value less than 0.01.

So I'm only 99% certain that you should use your CPAP. I'm only 99% certain that it is a case of life and death. So, I talked about GLP-1s earlier, which I think 18 months ago, our stock took a hit and people thought GLP-1s is going to be a huge headwind for many of MedTech. My friends over there at Intuitive and even in the ortho industry got hit by this. It was crazy.

In our space, it was this silly sort of correlation of, yes, 40% of patients who show up with obstructive sleep apnea diagnosis have a BMI of 30 or higher. But if you lower all of their weight, take it away completely, you do not change their tongue, uvula. You don't change their craniofacial geometry, don't change their gender. You certainly don't change their age, and you don't change their probability for having sleep apnea. You might reduce the severity of apnea, but the world was thinking the other way.

Are they just go away? Well, it turns out four quarters of incredible growth later that, no, it's not. We've had these drugs in market for five years. What we decided to fill that sort of ignorance of no knowledge about this was with some science, some data.

So MIT nerds and doctor nerds got together, and we said, what are we going to do? We created -- at the first, I think it was 300,000 patients in our first cohort, and we've built this up. This analysis now has 989,000 patients who, all of them, got a prescription for GLP-1s and all of them then got a prescription for positive airway pressure therapy and we tracked.

Well, they're just not going to use it because I've got this magic pill, and the magic injection is going to do this. So, I'm not going to use it. No. It's the opposite.

They're 10% more likely to start a CPAP -- and then, okay, well, no. They're going to fall off more, right? Because they're going to lose some weight and going to say, I don't need CPAP anymore. I'm not going to stick to that therapy. No, other way.

One year later, 3% higher, not just adherence but buying masks and accessories from ResMed or beyond. We just looked at objective data. And then the curves separate. It goes further 5% higher, greater than 5% higher, resupply rate at two years. So, we'll continue to monitor these data.

But with four quarters, I think we're done to prove the hypothesis and you've seen it in our numbers, and you'll continue to see it in our growth numbers.

Yeah. I won't talk about these too. I talked about these earlier.

Financials, you've seen this. We're growing really strong trailing five years here, top line, 12% compound annual growth rate. 400 basis points of leverage down to net operating profit, 500 basis points down to EPS.

Near-term guidance, high single-digit growth, and we're going to get leverage for free cash flow and net operating profit. And you see the near-term guidance, 59%, 60% on margins, 18% to 20% on revenue, and we're going to stick at 6% to 7% of our revenue into R&D.

And with that, I'll finish and call up Carlos Nunez to join us, and we'll do Q&A. So, thank you for the time, and think of some questions.

David Low - JP Morgan Chase & Co - Analyst

Thanks, Mick. Great job. I mean, that's a lot to fit into 34 minutes. So look, there are a couple of questions online, which I'm going to start with, and then we'll see if there's anything from anyone, others from the audience.

QUESTIONS AND ANSWERS

David Low - JP Morgan Chase & Co - Analyst

So the first one on GLP-1s. How do you view the risk related to sleep apnea meds from GLP-1s? And how would ResMed characterize their relationship with distributors? Do you expect the underlying economics with distributors to change in light of GLP-1's availability?

Mick Farrell - ResMed Inc - Chief Executive Officer & Chairman of the Board

Well, I've been talking for 26 minutes -- 36 minutes. I'm going to hand that to Carlos, our Chief Medical Officer.

Carlos Nunez - ResMed Inc - Chief Medical Officer

Sure. So, what we are seeing, and Mick talked about some of the data, but what we are seeing is, as he said, this is a once-in-a-generation opportunity. Patients who have been struggling with their weight, and with obesity for many years have been shamed even by the medical industry. This is your fault. You need to just eat less or exercise more, but we know that obesity is multifactorial and very complex.

And so they are coming out of the woodwork and asking for help. I saw the commercial for this blockbuster new drug. And when they show up, physicians are treating the whole patient. If you come with obesity and hypertension, they're not ignoring your hypertension. They're not going to put you on a GLP-1 and hopes that a year from now, your blood pressure will be a little lower.

What happens if you have a devastating stroke tomorrow? Same thing with OSA -- I'm sorry, with obstructive sleep apnea. If I showed up to my primary care, they're not going to put me on a GLP-1 and hope that in a year, my OSA is half treated. What if I fall asleep at the wheel tomorrow and die in a car accident or injured in a workplace injury? So, the clinical, the medical, the societal push is to treat the whole patient.

And if you look at the SURMOUNT-OSA study. There were four different cohorts in two different studies, the cohort that did the best was the cohort that was on CPAP and GLP-1s together. If you look at Lilly's educational materials released just last week, they're starting to do the education and the marketing. Those educational materials mention CPAP as the first-line therapy.

They don't even talk about pharma until after oral appliances. They referenced the American Academy of Sleep Medicine guidelines for initiating CPAP therapy. They quote ResMed studies in their educational materials. So, what we are seeing is this truly is representing a tailwind because patients are coming.

Now when you talk about distributors, are you talking about our distributors for hardware? Or are you talking about like PBMs and the distributors of pharmaceuticals?

David Low - JP Morgan Chase & Co - Analyst

I took it as distributed as the DMEs that we used to, but look, perhaps if you could answer broadly.

Carlos Nunez - ResMed Inc - Chief Medical Officer

Sure. So more broadly, the DMEs in the US healthcare system, obviously, you get a prescription for a drug, you go to the pharmacy or chemist if you're a European. If you get a prescription for a device, you go to the DME. So the DMEs will be in a completely separate channel than the GLP-1s.

So what will happen, again, is the patient will show up -- they will, first, to be prescribed a drug for sleep apnea, you will have to be diagnosed with sleep apnea. So that patient will go into the screening and diagnostic pathway. They will come back with a diagnosis of sleep apnea. And then the physician will say, hey, I'm going to write you the prescription for your Ozempic or your tirzepatide, I'm going to write you the prescription the -- for your CPAP.

And the patient will go to two different places to get their healthcare fulfilled.

David Low - JP Morgan Chase & Co - Analyst

Perfect. All right. We might just quickly cover off on the second question. So ResMed has done a great job expanding gross margins over the last 12 to 18 months. Can you please help us think about the drivers of gross margins from here?

Mick Farrell - ResMed Inc - Chief Executive Officer & Chairman of the Board

Yeah. Well, look, obviously, we're facing some crazy circumstances during COVID with electrical components, particularly semiconductor chips. As I said earlier, all of our devices are 100% cloud-connectable. And so those comms chips were quite expensive. All the electrical components were.

And so that drove our COGS, our cost of goods sold up very significantly. We had a lot of inventory that were high cost. We also had to air freight a whole bunch of things, if you remember, the supply chain crisis. And so those were all baked into our COGS. And so our gross margin took quite a hit in '22 late and '23 we lapped that, and we're able to get gross margin leverage of 200, 300-plus basis points through these last 12, 18 months.

As we look forward, we're talking about our guidance is 59% to 60% gross margins. And do I see some leverage on upside and some tailwinds in the future? Yes. I mean I see some headwinds right now with foreign exchange.

The U.S. dollar being so strong is a headwind for us on GM and OP, but then I see some tailwinds in other parts of our business that we've got costs down. We're going from air freight to sea freight. We've got much better contracts and electrical components and all the plastics and parts and pieces that go into our devices. So, I see a solid run for us ahead.

I don't laser focus just on gross margin, but I see it in that 59, 60 range. I also see us having incredibly strong net operating profit at 30% plus on a GAAP basis and 33% plus on a non-GAAP basis. We had that last quarter. And I think that 30-plus range is a really solid range for us and it's top tier amongst MedTech.

David Low - JP Morgan Chase & Co - Analyst

Perfect. All right. We're down to the last couple of minutes. Are there any other questions from the audience?

Mick Farrell - ResMed Inc - Chief Executive Officer & Chairman of the Board

So there's a microphone going to come around so people can hear you. He's just behind that pillar. Yes.

Unidentified Participant

Thanks very much for the presentation. I really appreciate the real-world data that you've collected on GLP-1s and sort of initiation of PAP therapy. What do you think underpins that relationship? Like is this -- I mean, is there any chance of confounding that these are patients who are just more motivated? And also, have you looked at whether there's a segregation of impact depending on which GLP-1? Like are these older generations versus like tirzepatide and semaglutide?

Mick Farrell - ResMed Inc - Chief Executive Officer & Chairman of the Board

Yes. So, I'll answer from the biomedical engineer's perspective, then we'll hand to the medical doctor. So, the last part of your question first. No, these are 95% latest gen. So, this is tirzepatide and semaglutide right latest GLP-1s. So that's point one.

Point two, my hypothesis is, look, of course, I mean it's real-world data. There's all sorts of confounding. But how do you deal with confounding? You've got 989,000 data points. It starts to pull that down a little. But no, I think it's a positive thing. The confounding thing is, are these more motivated patients? 100%. People coming in for a GLP-1 prescription looking for this Botox effect.

I'm going to look better and feel better and get this HbA1c reduction or this blood pressure reduction, or this AHI, our metric reduction. But the real -- the point is they're coming in, in droves and that they are more motivated to start. They're more motivated to stick with therapy at one year and two year. So, I'm a simple engineer. I see a box and things going in, things going out.

When someone goes in with the GLP-1, they come out, very motivated for our medical therapy, and I think that's sustainable. It's been sustainable the last five years that they have been out, and I think it will be even more sustainable when there's an IFU specifically in our area. Okay. 30 seconds for the doctor's point.

David Low - JP Morgan Chase & Co - Analyst

Sorry, we are at time. Okay. We are being -- we'll take it offline.

Mick Farrell - ResMed Inc - Chief Executive Officer & Chairman of the Board

Thank you.

Carlos Nunez - ResMed Inc - Chief Medical Officer

Sure.

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