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RMD.N - Q1 2026 Resmed Inc Earnings Call

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OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

Salli Schwartz *Resmed Inc - Chief Investor Relations Officer*

Michael Farrell *Resmed Inc - Chief Executive Officer and Chairman of the Board*

Brett Sandercock *Resmed Inc - Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Davin Thillainathan *Goldman Sachs Group Inc - Analyst*

Laura Sutcliffe *Citibank Cameroon SA - Analyst*

Saul Hadassin *Barrenjoey Markets Pty Ltd - Analyst*

Lynne Harrison *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Steve Wheen *Jarden Group Ltd - Analyst*

David Bailey *Morgan Stanley - Analyst*

Brett Fishbin *KeyBanc Capital Markets Inc - Equity Analyst*

Dan Hurren *MST Marquee - Analyst*

PRESENTATION

Operator

Hello, and welcome to the Q1 fiscal year 2026 Resmed earnings conference call. My name is Kevin. I'll be your operator for today's call. (Operator Instructions) Also, please note, this conference call is being recorded. (Operator Instructions)

Let me hand the call over to Salli Schwartz, Resmed's Chief Investor Relations Officer.

Salli Schwartz - *Resmed Inc - Chief Investor Relations Officer*

Thanks, Kevin. I want to welcome our listeners to Resmed's first-quarter fiscal year 2026 earnings call. We are live webcasting this call, and the replay will be available on the Investor Relations section of our corporate website later today. Our earnings press release and presentation are both available online now.

During today's call, we will discuss several non-GAAP measures that we believe provide useful information for investors. This information is not intended to be considered in isolation or as a substitute for GAAP financial information. We encourage you to review the supporting schedules in today's earnings press release to reconcile these non-GAAP measures with the GAAP reported numbers.

In addition, our discussion today will include forward-looking statements, including, but not limited to, expectations about our future financial and operating performance. We make these statements based on reasonable assumptions. However, our actual results could differ. Please review our SEC filings for a complete discussion of the risk factors that could cause our actual results to differ materially from any forward-looking statements made today.

I'll now turn the call over to Mick.

Michael Farrell - Resmed Inc - Chief Executive Officer and Chairman of the Board

Thank you, Salli, and good morning, good afternoon and good evening to everyone on the various time zones, and welcome to Resmed's first quarter fiscal year 2026 earnings call. I'm very proud of our global team of 10,000-plus Resmedians, who have delivered a strong quarter with 9% reported revenue growth or 8% on a constant currency basis, with multiple areas of high performance.

Across US, Canada and Latin America, our team drove high single-digit growth in devices at 8%, and the same team also delivered double-digit growth in the masks and other category with 12% growth. For Europe, Asia and Rest of World devices, the team achieved high single-digit growth at 7% on a constant currency basis. These businesses collectively comprise more than 75% of our quarterly revenue.

For Europe, Asia and Rest of World in the masks and other category, we had mid-single-digit growth at 4% on a constant currency basis, following a strong comp from Q1 last year, where we grew at 11% in constant currency in this category and region. I'm confident that we will accelerate to high single-digit growth in this category, starting in the current quarter.

We are focused on continued strategic expansion of our mask portfolio with new product innovation, which I'll talk about in a couple of minutes. And we're also focused on driving mask resupply through education, awareness, and execution. Increased mask resupply benefits patients, home care providers as well as payers and health care systems.

And yes, it also benefits Resmed. This increase focused on mask and accessory resupply is fully aligned with our ongoing investments to accelerate growth in our direct-to-consumer markets around the world, including China, India, Korea, Australia, and New Zealand. As I noted above, I'm confident these efforts will accelerate our Europe, Asia and Rest of World masks and other category with solidly and sustainably back to high single-digit growth.

Resmed's residential care software or RCS business delivered mid-single-digit growth with 6% reported and 5% constant currency growth. We saw strong performance from our Medifox platform, our core Brightree platforms with good growth in the MatrixCare home health business, yet a challenging growth environment for the skilled nursing facilities segment.

Now that we have integrated our RCS business into our global revenue team, we will drive portfolio management with increased investment in the high-growth higher-margin parts of that RCS portfolio while reducing exposure to the lower growth, lower-margin areas, such as the services businesses.

We're confident that we will execute successfully on our portfolio management work and reaccelerate growth in our RCS platforms, moving from mid-single-digit growth here at the start of fiscal year 2026, accelerating to mid- to high a single-digit growth in the back half of fiscal year 2026 and achieving sustainable high single-digit growth with double-digit operating profit growth in 12 months from now.

RCS is a key synergistic enabler of our core sleep and breathing health business through demand generation and especially through resupply programs. In this way, our RCS business forms a core part of our long-term growth strategy. During the quarter, we also continued to execute well on our ongoing work, driving operating leverage. Our global supply chain team delivered 280 basis points of year-over-year gross margin expansion.

These results, along with our disciplined approach to business investments in both R&D and SG&A translated to another quarter of strong double-digit earnings per share growth. I'd like to take this opportunity to thank not just our supply chain team, but the entire Resmed global team for their ongoing commitment in serving patients in more than 140 countries worldwide.

Resmed continues to build the world's largest digital health ecosystem, encompassing sleep health, breathing health and health care technology delivered right in the home. Over the recent quarters, I've highlighted three key themes for these earnings calls, one that Resmed is committed to operating excellence and driving operating leverage while simultaneously delivering new products to the market.

We are an innovation machine and an operational excellence machine. Two, Resmed is a compelling investment opportunity with huge addressable and growing markets and strong executable growth especially amidst global macro uncertainty. And three, Resmed's excellent free cash flow and strong balance sheet position, position us to both invest in the business and simultaneously return capital to our shareholders.

Our first quarter results are another demonstration of these important business elements, and I'll talk briefly about each of these three themes. On the first theme of operating leverage, I shared with you last quarter that Resmed has a pipeline of opportunities. One key area of focus has been optimization of our freight expense. Another area of focus has been our multiyear productivity programs that include improved planning systems and large-scale automation.

These efforts, among others, helped deliver the 280 basis points of year-over-year gross margin expansion that we saw in this first quarter. We will continue to execute on these opportunities over the remainder of fiscal year 2026 and beyond. We'll update you here every quarter as we continue to deliver great results.

I've also previously highlighted the evolution of our global manufacturing footprint. In addition to our recently announced expansion of our Calabasas, California facility, which doubles our US manufacturing capacity, we are pleased to announce that with our strong ongoing growth in the United States that we are investing to establish a third facility, a third distribution center.

This new facility will be in Indianapolis, Indiana, the heartland of the Midwest, and it will expand our distribution capacity. It will improve product velocity of delivery and enhance our overall network resilience by positioning inventory closer to our customers. We expect the Indianapolis facility to be operational in 2027.

Once this facility comes online, Resmed will be able to ship to around 90% of our customers within two days. These efforts will also increase the capacity for our Made in America product to build on what we already do right here in the US.

On the topic of Resmed as an innovation machine, our R&D investments in the next generation of market-leading masks, cloud connected device platforms and digital health software position us well to keep delivering the world's smallest quietest, most comfortable, most cloud-connected and most intelligent therapy solutions for sleep apnea, insomnia, respiratory insufficiency and beyond.

Just this week, we rolled out two world firsts for Resmed. These are the first two full face fabric masks available on the market. This brand-new AirTouch F30i mask platform is so innovative, we are launching two mass variants right out of the gate. First, the F30i Comfort, which is a premium price mask with a fabric-wrapped frame as well as an incredibly comfortable fabric-based oro-nasal patient interface. This amazing new product was launched earlier this week in Australia and will be launched into additional markets in the near future.

Second, just yesterday here in the US market, we launched the F30i Clear, which is a traditional silicon frame mask, but it still has that innovative, incredibly comfortable fabric oro-nasal patient interface. This variant will be launched into our B2B channels and our home care provider customers as we continue to launch to additional markets beyond the US.

These products expand Resmed's AirTouch portfolio of fabric-based mask offerings, delivering advanced comfort, mobility, and interchangeability for patients. They're designed to help more people start, stay and be on therapy, CPAP therapy for life. We're also excited to continue executing against our road map for incorporating ML, AI and generative AI technology into our digital health products.

Last quarter, I talked about how we integrated our personal sleep health digital assistant that we call Dawn into our myAir platform in the Australian market. Dawn allows Resmed to provide personalized 24/7 support to our users, giving them an intuitive, empowering way to get help right at the moment they need it, right on their own time. Based on that success, during the first quarter of fiscal year 2026, we launched Dawn on the myAir platform right here in the US market.

Ultimately, Dawn strengthens the role of myAir as the central hub for therapy support for patients. This connectivity leads to increased long-term adherence, which in turn leads to better patient outcomes, lower total cost of care for payers and better resupply volumes for providers and for Resmed. Watch this space as we build and scale this amazing AI-based technology globally.

We also recently launched in a limited beta program in Australia, a new feature that we call Comfort Match. Now Comfort Match is an AI-enabled comfort setting technology that sits on the myAir platform. Comfort Match is intended to help people become more confident, more comfortable and more adherent to therapy.

By engaging with patient settings such as humidification levels, air temperatures, heated tubing options and beyond, we will help patients define their optimal sleep health and breathing health environment faster, more easily and more efficiently, right from the start of their therapy journey.

During set up, the Comfort Match technology receives information about a person's profile and through advanced machine learning suggests a personalized combination of comfort settings with the goal of maximizing adherence. We will measure the success of this technology in consumer engagement, improved patient perceived comfort as well as hard clinical outcomes such as patient adherence.

Based on early trials, we are very excited that this technology will deliver for patients, for physicians, for providers and for payers and beyond. At Resmed, we view AI as a technology resource that will amplify and personalize care by identifying patterns, surfacing insights and enabling personalized interventions, we are creating AI-based technologies that will help caregivers spend more time focusing on people rather than paperwork.

For our patients, our AI technology translates health data into clear guidance, clear support and encouragement, empowering them to take an active role in their own therapy. As a result, we believe that our AI tech investments will provide returns through accelerated access to care through improved patient outcomes while also making care more personal, more proactive and ultimately more effective.

Moving on to Resmed's SG&A investments. We remain focused on demand generation, demand capture, and demand curation, as critical components to our long-term growth. Earlier this year, we expanded our offering of continuing medical education or CME programs to educate and to enforce or reinforce with physicians the benefits of CPAP, APAP and bilevel therapy as the clinical gold standard frontline treatment for any patient diagnosed with sleep apnea in accordance with sleep medicine guidelines.

We have continued to see incredible uptake from primary care physicians or PCPs. To date, the CME programs have been completed nearly 40,000 times by more than 22,000 unique PCPs, demonstrating that health care providers have taken multiple courses. Surveys at the end of these courses have consistently shown that 75% of providers intend to change their clinical practices related to improving sleep and breathing health based on what they learned.

We will continue to drive select and targeted direct-to-consumer awareness campaigns to build sleep apnea awareness as well as Resmed brand awareness globally. The ultimate goal is to help undiagnosed patients to find their optimal path weighted treatment. With more than 2.3 billion people worldwide who need our solutions for sleep apnea, insomnia or respiratory insufficiency, it is our clear obligation to help them know the world's leading brand in the field, which is Resmed.

Immediately after that, though, our role is to be what I call a digital sleep health concierge to help that person find a path to screening, to diagnosis and ultimately, to therapy for life. On the sleep medicine clinical research front, you will see Resmed continue to invest in important studies that highlight new evidence in sleep health.

In late August, we announced the publication of a landmark study in the Lancet Respiratory Medicine Journal projecting a significant rise in obstructive sleep apnea, or OSA, prevalence in the US over the coming three decades due to a variety of factors, including an aging population and increased chronic disease awareness.

The study estimates that by 2050, OSA will affect nearly 77 million US adults representing a relative increase of nearly 35% from 2020 and ultimately impacting nearly half of all adults age 30 to 69. These epidemiology data include all of the estimated impacts of new drug classes, including GLP-1s. The bottom line from this epidemiology research is that the prevalence of sleep apnea will continue to increase. So our work is ongoing to help the many millions here in the US and the billions worldwide who need us.

Last month, Resmed announced the launch of the Sleep Institute, a global clinical insights initiative, which is partnering with clinicians, researchers, policymakers and health system leaders to deliver objective non-commercial evidence-based insights that help inform care innovation, support policy decisions and elevate sleep as a global health priority. The Sleep Institute debuted at the World Sleep Congress in Singapore with an expert-led symposium examining barriers in diagnostic pathways for OSA and new scalable solutions to help improve access and outcomes.

Even as we have continued our investments in both R&D and SG&A, Resmed again delivered strong net operating profit growth in the first quarter. Indeed, Resmed remains a compelling investment opportunity amidst global macro uncertainty. We continue to closely monitor the global trade environment and the evolving regulatory landscape.

As I noted last quarter, because our products are used to treat patients with chronic respiratory disabilities, they have been subject to global tariff relief for decades, and we have reconfirmed that with US authorities earlier this year. It's important to note that this relief has continued in the context of other Section 232 investigations, and we expect it to remain true for the investigation of medical supplies that was announced in late September.

Resmed was one of the many organizations across Medtech that submitted formal public comments regarding this investigation to the US Department of Commerce. There were over 800 official comments made from our industry which we see as a good show of strength from our colleagues in the field.

Our submission at Resmed focused on Resmed's significant and expanding, in fact, doubling of our US manufacturing, our broad domestic hardware and software R&D teams our global headquarters that's located right here in San Diego, California as well as our expansion of not just our US manufacturing, but also our many US jobs in research, development, and commercial operations here in the US.

As the incoming Chairman of the industry group called AdvaMed from January 1, I'll be on the front lines of our med tech industry's response to this 232 investigation. Of 14 industries that has been investigated by the department. And I see our industry as actually quite analogous in potential outcome to that of the aircraft industry.

And the aircraft industry saw some very favorable outcomes after their investigation and the details of their commentary. We are confident that ongoing tariff relief should still apply for Resmed and for our many patients with important disabilities that need access to care.

Let me also briefly comment on the competitive bidding program that CMS has stated that it plans to resume. In late August, Resmed submitted its comments on the proposed methodology that will apply to our home medical equipment or HME customers. We remain committed to advocating for policies that protect patient access to care and for policies that promote fair and sustainable reimbursement for HMEs.

At this point, like everyone else in the industry, we are awaiting further information, including intended timing for the program, product categories that will be included or not included and bidding methodology details. Resmed will continue to support our HME customers and the millions of US Medicare beneficiaries who rely on us, both for access to market-leading, high-quality sleep and respiratory care at home.

We are fortunate to be able to remain fully focused on executing our 2030 strategy, including delivering value to all of our constituents. Resmed's strong free cash flow, our robust balance sheet provide us with significant flexibility to both invest in our business and return capital to shareholders.

You will see us continue to selectively invest in our digital sleep health concierge capabilities, including screening protocols, clinical tools, seamless workflows and cloud connected care pathways. We'll be looking to expand the diagnostic funnel to keep up with the new patient flow that will come from Resmed's own demand generation efforts as well as the greater awareness of sleep apnea that has been and will be generated by the promotion of GLP-1 medications that can be used to partially treat or, as I say, half treat OSA.

And the accelerating momentum in consumer wearables that are capable of not just sleep health monitoring, but also sleep apnea detection. Resmed's ability to integrate with multiple other wearable ecosystems and the growth in patients using Resmed products has driven the number of API calls per second up more than 40% year-over-year in this quarter.

The first quarter of fiscal year 2026 was the first time that we had more than 3 billion total API calls in a single quarter. The bottom line is that interoperability works, digital health works. People want to combine health data for lower costs, better outcomes and to bend the curve of chronic disease and to better manage the disorders and diseases that they have and that we treat.

Resmed also returned significant capital to shareholders through a combination of dividends and share repurchases. As you're aware, last quarter, Resmed's our Board of Directors authorized another increase in the quarterly dividend for fiscal year 2026. We also increased our targeted share repurchase activity for fiscal year 2026. And during the first quarter, we returned over \$238 million to our shareholders.

Before I turn the call over to Brett, I would like to take this time to thank the Resmed Board Director has just recently announced his retirement, Rich Sulpizio, for his amazing years of contribution to Resmed. We announced that Rich will not stand for reelection at our upcoming annual meeting of shareholders, which will be November 19, 2025, and he will retire after that meeting.

Rich has been a long-time mentor to me and to many executives in the technology and health care industries, including at Qualcomm, CA Technologies and of course, right here at Resmed. Rich had always brought candor, energy, and a people-first mindset to every boardroom conversation. We'll continue to do that in his legacy.

I'd also like to formally welcome Nicole Mowad-Nassar to Resmed's Board of Directors. Nicole was elected to our Board August 15 and has been appointed to the Compensation and Leadership Development Committee. Nicole is President of the Global Allergan Aesthetics business, and she's a Senior Vice President at AbbVie. Nicole brings three decades of pharmaceutical industry experience, a sharp commercial lens, a deep commitment to patient access and a strong orientation towards digital health as well as consumer and patient engagement. Nicole is a great addition to the Resmed board.

One final note on the Board, I'd like to congratulate Chris DeOrefice on his recent appointment as Chief Financial Officer of Ulta Beauty in the consumer cosmetics retail industry. We are fortunate to have both Chris and Nicole bring their experience with consumer-driven aesthetics products and retail products to our Board discussions. Their insights will be increasingly critical as Resmed builds its brand presence with consumers around the world to augment our amazing B2B businesses.

Quarter-after-quarter, Resmed has demonstrated its ability to consistently deliver both financially and operationally. We've established a leading market position globally in an underpenetrated market that still has a very long runway for growth. This underpins our confidence in our ability to deliver for consumers, for patients, for physicians, for providers for payers, for our communities and, of course, for you, our shareholders.

With that, I'll hand over to Brett to go through a deeper dive into our financials, and then we'll open the floor for questions. Brett, over to you in Sydney.

Brett Sandercock - Resmed Inc - Chief Financial Officer

Great. Thanks, Mick. In my remarks today, I will provide an overview of our results for the first quarter of fiscal year 2026. Unless noted, all comparisons are to the prior year quarter and in constant currency terms, where applicable. We had strong financial performance in Q1.

Group revenue for the September quarter was \$1.34 billion, a 9% headline increase and 8% in constant currency terms. Revenue growth reflected positive contributions across our product and resupply portfolio. Year-over-year movements in foreign currencies positively impacted revenue by approximately \$16 million during the September quarter.

Looking at our geographic revenue distribution and excluding revenue from our residential care software business, sales in US, Canada and Latin America increased by 10%. Sales in Europe, Asia and other regions increased by 6% on a constant currency basis. Globally, on a constant currency basis, device sales increased by 7%, while masks and other sales increased by 10%.

Breaking it down by regional areas. Device sales in the US, Canada and Latin America increased by 8%. Masks and other sales increased by 12%, reflecting continued growth in resupply, new patient setups and incremental revenue from our recent VirtuOx acquisition, which we acquired in Q4 FY25.

In Europe, Asia and other regions, device sales increased by 7% on a constant currency basis, and masks and other sales increased by 4% on a constant currency basis, impacted by a strong prior year comparable. Residential care software revenue increased by 5% on a constant currency

basis in the September quarter, led by robust performance from our MEDIFOX DAN business, partially offset by weaker performance in our senior living and long-term care software business.

As Mick mentioned, we are reviewing our investment priorities within RCS and are working on initiatives to drive improved growth in the RCS portfolio. During the rest of my commentary today, I will be referring to non-GAAP numbers. We have provided a full reconciliation of the non-GAAP to GAAP numbers in our first quarter earnings press release.

Gross margin was 62% in the September quarter and increased by 280 basis points year-over-year and by 60 basis points sequentially. The increases were primarily driven by component cost improvements and manufacturing and logistics efficiencies. Changes in average selling prices had a minimal impact on our gross margin, both on a year-over-year and on a sequential basis.

Our supply chain team continues to make progress on our pipeline of gross margin expansion initiatives, and we remain focused on making sustained long-term gross margin improvements. Looking forward and subject to currency movements, we still expect gross margin to be in the range of 61% to 63% for fiscal year 2026.

Moving on to operating expenses. SG&A expenses for the first quarter increased by 8% on a headline basis and by 7% on a constant currency basis. The increase was primarily attributable to additional expenses associated with our VirtuOx acquisition and growth in employee costs as well as ongoing marketing and technology investments. SG&A expenses as a percentage of revenue improved to 19.4% compared to 19.5% in the prior year period.

Looking forward and subject to currency movements, we still expect SG&A expenses as a percentage of revenue to be in the range of 19% to 20% for fiscal year 2026. R&D expenses for the quarter increased by 10% on both a headline and constant currency basis. The increase was primarily attributable to increases in employee-related expenses. R&D expenses as a percentage of revenue were 6.5%, consistent with the prior year period. Looking forward and subject to currency movements, we still expect R&D expenses as a percentage of revenue to be in the range of 6% to 7% and for fiscal year 2026.

During the quarter, we recorded a restructuring related charge of \$16 million, following a company-wide workforce planning review to better align our capabilities with our 2030 strategic priorities. Restructuring costs were comprised of employee severance and other one-time termination benefits. The restructuring charge has been treated as a non-GAAP item in our first quarter financial results.

Operating profit for the quarter increased by 19%, underpinned by revenue growth and gross margin expansion. Our operating margin improved to 36.1% of revenue compared to 33.2% in the prior year period. Our net interest income for the quarter was \$9 million. During the quarter, we recognized unrealized losses of \$6 million associated with our minority investment portfolio. This negatively impacted our Q1 earnings per share by -- sorry, by \$0.04. Our effective tax rate for the September quarter was 22.3% compared to 19.2% in the prior year quarter.

As we noted in our last quarter call, the increase in our effective tax rate was primarily due to the impact of global minimum tax legislation introduced in certain jurisdictions that became effective from July 1, 2025. We still estimate our effective tax rate for fiscal year 2026 will be in the range of 21% to 23%. Our net income for the September quarter increased by 15% and non-GAAP diluted earnings per share increased by 16%.

Movements in foreign exchange rates had a positive impact on earnings per share of approximately \$0.02 in Q1 FY26. Cash flow from operations for the quarter was \$457 million, reflecting strong operating results and disciplined working capital management. Capital expenditure for the quarter was \$43 million, and depreciation and amortization for the quarter totaled \$48 million.

We ended the first quarter with a cash balance of \$1.4 billion. At September 30, we had \$669 million in gross debt and \$715 million in net cash, and we have approximately \$1.5 billion available for drawdown under our revolver facility. We continue to maintain a solid liquidity position, strong balance sheet and generate robust operating cash flows.

Today, our Board of Directors declared a quarterly dividend of \$0.60 per share. During the quarter, we purchased approximately 523,000 shares under our previously authorized share buyback program for a consideration of \$150 million. We plan to continue to purchase shares to the value

of approximately \$150 million per quarter during the remainder of fiscal year 2026. Going forward, we will continue to invest in growth through R&D, deploy further capital for tuck-in acquisitions and continue our dividend and share buyback program.

And with that, I will hand the call back to our operator, Kevin, to provide instructions for our Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Davinthra Thillainathan, Goldman Sachs.

Davin Thillainathan - Goldman Sachs Group Inc - Analyst

Yes. Mick and team, I appreciate the time. Can we just touch on your new mask that you have launched in Australia and in the US. Could you just highlight the unique attributes of this product? And also, if I understand this right is in the full face category and it builds on the nasal launch towards the back end of calendar year '24.

So if you could just help explain just the importance of that full face category and tie that into your ambitions to accelerate growth in March, especially in ex US regions?

Michael Farrell - Resmed Inc - Chief Executive Officer and Chairman of the Board

Yes. That's a great question, David. And so yes, it's the AirTouch F30i and really incredible, I would say, fabric-based technology that, as you know, in Singapore, we've had a fabrics engineering team working for a while. And we had recently launched our AirTouch N30i, a couple of quarters ago and have had really good success with that nasal mask with fabric touching the face. And so we had this in development.

We accelerated it up. And you're right, this is a full-face mask. So it's high price, high margin. It's about the roughly 30%, 40% of people breathe through both their nose and their mouth while they sleep. So they need an oro-nasal mask. And so for those people, one-third-plus of people, the AirTouch F30i is coming to market.

And we've got two variants of it, one, which I'll call sort of the premium one, which would be more, as you said, in the sort of direct-to-consumer cash pay markets. I think China, Australia, New Zealand, India, Korea, Singapore, et cetera, et cetera. And that's called the F30i Comfort. And that has fabric not only in the part touching the face, but all over the head gear as well.

So, every part touching your body is like the sheets that you sleep in the bed. The other variant is called the F30i Clear. And that is for markets sort of that are B2B markets, or home care provider markets, where we have a more economical version, but it's still has the advanced technology where the part touching the face has this new fabric oronasal patient interface. So watch this space. We've seen really good success with the N30i over the last couple of quarters.

I think we're going to do the same in the full-face category here. We're changing the basis of competition in masks away from liquid silicone rubber LSR away from silicone to fabrics. We're going to sell both, but I think this is going to be a very exciting product for us and it will help us, not only have high single-digit growth in the Europe/Asia rest world category, which we're going to be back to that this quarter and continue on it. I'm more excited about what it can do for patients around the world who want more comfort and more care and these masks do that. Thanks for the question, David.

Operator

Laura Sutcliffe, Citi.

Laura Sutcliffe - Citibank Cameroon SA - Analyst

Hello, thank you for taking my question. I think you spoke at the end of the prepared remarks to potential sort of tuck-in acquisitions. I think historically, you've said there'll be focus sort of refining the patient funnel improving retention within the funnel. I assume that because there's more for you to gain here. So could you just talk to how much work there is to do, how leaky is the funnel right now and perhaps sort of allude to how that fits into the Resmed 2030 strategy?

Michael Farrell - Resmed Inc - Chief Executive Officer and Chairman of the Board

Yes. Thanks for the question, Laura. Look, it's a good one. And as you saw, we have done a couple of tuck-in acquisitions in this area of the patient funnel, helping with access to very easily usable home sleep apnea testing tools like our Ectosense acquisition and the NightOwl product that is now being launched to our US sales force. We did that at the sales meeting a couple of months ago.

And so then in addition to that, we acquired a home sleep apnea testing services company called VirtuOx. And that team is hard core, dedicated entrepreneurs that now have -- and they came to our sales meeting here in the US as well. They now have access to the Resmed capabilities. And I actually just got the quarterly update from the team on the advisory board and their numbers are doing really well.

We are doing really well in terms of getting NightOwls, getting other homes sleep apnea tests to patients, bringing them through the funnel. So that really strong 8% growth we saw in US devices. I do think that sort of, I would say, beating sort of that mid-single-digit growth, which we say is the market growth without that, some of these tuck-in acquisitions of VirtuOx and the NightOwl product have helped with that.

In addition, of course, we had the tuck-in of the Somnoware acquisition, which is software, for pulmonary and sleep medicine practices. So we're helping provide efficiency, seamless flows, so that the pulmonary doctors and the PCPs have better interactions and easier interactions with each other.

Yes, I'm not going to signal exactly what we are looking at for the future, but I can tell you more like that, technologies and capabilities to help with that seamless, frictionless flow from sleep concerned consumer to screening, diagnosis, treatment and set up. As you said in your question, Laura, there is churn in the channel. There is leakage in that funnel.

And our goal is not only to bring more patients into the funnel at the top through demand generation, capture and curation, like our CME programs that I talked about in the prep remarks, but also to minimize the loss of people as they go through there. And how do you do that?

You interact better. You provide seamless and easier alternatives to go through the system. So I think having Dawn, our generative AI product, this sort of digital sleep health concierge, improving access to that capabilities of that, interoperability of that. Think of the 3 billion calls, API calls into and out of our AirView system. That means people want to know about their sleep health and their breathing health.

And we need to combine it with all those other data around chronic disease. So I really do think the investments from big pharma, they're putting in D2C advertising, including using basketball stars and all this late night stuff Don't Sleep on OSA campaign. It's going to bring patients into that funnel.

And so Resmed's goal is to maximize the opportunity of getting that screening, positive diagnosis, positive therapy for the gold standard, whether or not they have additional therapies like GLP-1s or others, making sure the gold standard happens at that time and that we maximize that 90-day adherence, year one adherence and beyond.

So the game is not done. There's a lot more to do. We're going to keep executing on NightOwl and VirtuOx and Somnoware and looking at others that can help drive further growth in the future. Thanks for the question, Laura.

Operator

Saul Hadassin, Barrenjoey.

Saul Hadassin - *Barrenjoey Markets Pty Ltd - Analyst*

Yeah, good morning, Mick, and Brett. Thanks for taking my question. Mick, you touched on this Made in America strategy, Mick, and the Indianapolis distribution center expansion. I'm wondering if you can talk to your plans as it relates to actually manufacturing in the US, and I know you spoke about this last quarter at Calabasas. But just to be clear, how do you see product manufacturing evolving in the US as it relates to being able to develop all products, CPAPs, masks, not just the motors. If you could touch on that, that would be great.

Michael Farrell - *Resmed Inc - Chief Executive Officer and Chairman of the Board*

Great question, Saul. And I won't go into the detailed plans that we have to expand in Calabasas and Moreno Valley and Indianapolis and Atlanta. But I can tell you across our footprint here in the US, we've got a really broad manufacturing and distribution capacity world-class. And Shane Azzi and his supply chain team not only looking at inbound supply, but that manufacturing distribution, getting 90% of customers within two business days of delivery is sort of world-class and well above top tier for Medtech. And so that's where we're looking at going.

Yes, look, we do see certain policies coming in from Washington and being the incoming Chairman of AdvaMed, I'm very much across all that is coming and may or may not come. And you think about customers like the VA and others that the US government approach. I think it's just a good strategy for Resmed to not only have our Made in America motors, as you said, our Made in America masks that we already have, but to have capability for Made in American devices.

And so we will be setting up lines for that and be able to flex up and down as the needs of our US-based customers and our global customers go there. The bottom line is the vast majority of our global volume does come out of the US It's well over 50%, 60% of our global volume. So bringing more manufacturing here.

And we learned this in COVID that having manufacturing close to where the demand is, is needed when there's uncertainty -- geopolitical uncertainty. And so we're looking at all that and saying Resmed is a steady ship all this macro uncertainty. We've been so good with all these changes in up and down. Just being really good at delivering for our customers.

We want to have the ability to do that no matter what happens. And so we're preparing for that. And we're doing things for the long term. We're not doing them in response to a particular government. We're saying, well, what's right for us in 2030, 2035 and then what overlaps what rules may or may not come in. And that's why we're doubling our US manufacturing capacity and broadening from just motors to masks and potentially devices as well. So watch this space.

Operator

Lyanne Harrison, Bank of America.

Lyanne Harrison - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Hi, good morning, Mick and team. I might ask on US devices. Obviously, very strong growth there and comping a strong previous quarter as well. Can you talk about the demand gen initiatives that you have in place? And how do you measure which ones are really delivering in terms of generating that demand?

And you do mention mid-single-digit growth for the device market. But certainly, what we are seeing this quarter is at high single digits. Can we expect high single digits going forward, given all those demand initiatives that you have in place?

Michael Farrell - *Resmed Inc - Chief Executive Officer and Chairman of the Board*

Yes, Lyanne, look, it's a really good question. And you and many of the other analysts here have followed our work here very closely on demand gen, demand capture demand curation. And so you know it's not a simple algorithm. It's not a simple customer acquisition cost to lifetime value that you might see in a retail industry or an online-only type company where those equations are relatively simple. Turn this dial, you get this response.

It's quite complicated in health care. And so we've actually become quite sophisticated, I think, in where, how and when we have targeted social media and digital media driven demand gen campaigns where we look at not only is there an age group and a demographic that's open to that demand gen, so that it's available demand gen, but the capacity for screen, diagnosis and prescription of referrals is there within that particular demographic, geography and capability.

And so -- yes, look, I do think we outperformed what the market growth would have been without good execution there in Q1, right, with 8% growth in our US, Canada and Latin America devices on a reasonable comp as you noted. I'm not here to raise our guidance and say, oh, we're suddenly going to go to high single-digit growth in devices on a consistent basis in the US.

But I do think that we can systematically move up 25, 50, 100 basis points from what the growth will be. We can move ahead sometimes and do really well and then we can just slowly and steadily move it up as well. And what we're looking for is that sustainable market demand, demand generation improvement. It is nice to have the tailwinds of \$400 billion, \$500 billion pharma company throwing a lot of D2C advertising that we can't afford to do with our P&L. That Don't Sleep on OSA campaign and all their other stuff is going to bring patients into the funnel.

So our question then comes like -- how many of those 22,000 PCPs were trained are actively now prescribing CPAP as gold one front line therapy to every patient that comes through. They say they're going to do that close to the education, but what happens in practice? Have we connected them to a VirtuOx? Have we connected them to other home sleep apnea testing services because it doesn't have to all be from us. We want that patient well taken care of and brought through the funnel.

So yes, I think it was a great work by the team in US, Canada and Latin America in the quarter. And let's not forget, they also did great work and resupply. You saw 12% growth of US, Canada and Latin America masks and other categories. So that very good growth in the mask resupply and the VirtuOx services and all the other parts that go into that. So very excited about this growth and its ability to continue it.

But it's an ongoing game of innovation in marketing technology, demand generation technology and then also channel evolution, which relates to Laura's question about making sure the infrastructure is there as well. So we're combining all this together well. US, Canada and Latin America team did very well in the quarter, and we're going to continue to execute on that. Thanks for the question, Lyanne.

Operator

Steven Wheen, Jarden.

Steve Wheen - Jarden Group Ltd - Analyst

Oh, thanks very much. Just a question for Brett in response to the global minimum tax jurisdiction and the impact on your tax rate. I think from your previous calls, you've indicated that there's other benefits that you're likely to get through R&D sort of credits or offsets or sort of staff concessions.

I wonder if you could sort of help us understand what the sort of compensating factors may be for that lift in the tax rate in -- out of Singapore?

Brett Sandercock - Resmed Inc - Chief Financial Officer

Yes, sure, Steve. Yes, we now have an agreement under refundable investment credit or RIC with the Singapore government, which is now effective into this quarter. So we are getting some offset that would flow through COGS, SG&A, R&D through the P&L.

So that offsets it to some extent, but not completely, but we do get some benefit that's coming through. You'll see that over time. I think that will build over time as well through FY26 into FY27. So we are getting the benefit of that, but it's not -- it doesn't offset the tax impact.

Operator

David Bailey, Morgan Stanley.

David Bailey - Morgan Stanley - Analyst

Yeah, thanks. Good morning, Mick and Brett. Mick, just the commentary around PCP awareness rising prevalence in the US in relation to OSA. First part is, where do you think the penetration of the US market is at the moment? And then secondly, in terms of rePAP as an opportunity for growth, how do you sort of see that at the moment and going forward as well?

Michael Farrell - Resmed Inc - Chief Executive Officer and Chairman of the Board

Yes, David, it's a good question because it looks at the rePAP, which is a growing part of our devices side and the new patient flow that we spend a lot of our time for in the devices category. Look, I think PCP awareness is key. I want all 40,000 of the PCPs that I think will be targeted by this work from the pharmaceutical industry that are high-volume GLP-1 providers, and that already have access to home sleep apnea testing protocols.

And so we're going to work through really strongly to make sure that we hit all of those primary care physicians and make sure their education is there and that we are there with commercial solutions for them to be able to drive that. And yes, the rising prevalence from the data that was published in the Lancet. We're ready for that. We know there's an aging population.

We know there's increased chronic disease awareness, and we know that people are finding out more, not just in the big pharma ads, which is sort of temporal compared to these wearables that people are now managing their health and their fitness. And when it starts to identify sleep breathing disturbances or of course typically sleep apnea.

They're going to seek treatment and they are. And so we've got to be aware for both of these at the primary care level. To your question around penetration in the US market. Look, I think when you take those numbers up to 77 million by 2050, where we're at in our penetration rates and the growth towards that.

The US market is sort of in that sort of 15% -- under 20%, sort of 15% to 20% penetration. The Europe market is in that sort of 10% to 15% penetration rate. And of course, in Asia Pacific and Rest of World, we're well sub-5% penetration. And our growth rates are struggling to keep up with the rise of prevalence.

And so those percentages don't change as fast as I'd like them to change in terms of penetration. I'd like them to increase higher and higher because Resmed is finding better and better solutions to get there. But we're finding more and more patients as people age and get aware, frankly, of these chronic diseases.

And so both of those are good things. But yes, sort of in that 15% to max 20% sort of in the US range is sort of where we see penetration now. And thanks for your questions. It's a complex equation of getting that PCP aware and driving people appropriately into the funnel, but we're working on it and the team performed very well this quarter.

Operator

Brett Fishbin, KeyBanc Capital Markets.

Brett Fishbin - *KeyBanc Capital Markets Inc - Equity Analyst*

Hey guys, thanks very much for taking the questions. Nice overall quarter for Sleep & Respiratory, but I think the one area to maybe nitpick was just the mid-single-digit growth trend in SaaS which is a little bit below your typical levels. I was hoping you can maybe just unpack a little bit more in terms of the incremental headwinds you saw in those couple of end markets. And then just the assumptions underlying your expectation of returning to mid- to high single-digit growth near term and high single-digit growth next year?

Michael Farrell - *Resmed Inc - Chief Executive Officer and Chairman of the Board*

Great. It's a good question. And yes, as you know, the Software as a Service part of our RCS business is incredibly strong, and that's where we're really looking to focus. So core Medifox, core Brightree and then MatrixCare home health, all Software-as-a-Service businesses that have higher growth and higher margins. So we are investing in those.

What you saw in the quarter and what I talked about for this fiscal year is that we're going to focus less on what I would call the lower margin, lower growth areas. Their services revenue, IT services, implementation services, which you need to have some of, right, for new customers that are coming on board with your ecosystem, but you don't need to expand on them and have them beyond what is needed.

And you can actually use third parties to provide those lower-margin areas where private companies are happy with lower growth, lower margin areas and they're not best suited as part of a strategic like Resmed in a global RCS platform. So I'm going at portfolio management that we're looking at for that, where we're going to invest more and more in the SaaS platforms, as you noted, and less and less in the services part of that.

And that was what contributed to the couple of hundred basis points delta there from Q4 to Q1. But as I said in the prepared remarks, and we've got the plan and we're executing on it. I spent a lot of time. We've now rolled this business into our global revenue side. So Mike Fliss, our Chief Revenue Officer, and really importantly, with Joachim who runs our Medifox business, Tim who runs our MatrixCare business and Gregg, who runs our Brightree business, we're looking at every element of portfolio management is saying, let's invest for the long term.

Let me get investment into the core platforms that are really servicing these home medical equipment companies, really servicing this home nursing and home health companies and our expandable and sustainable growth and can get us back to where we should be, which is high single-digit growth in the top line, but also double-digit growth on a net operating profit basis.

So watch this space as we go through that. I think it's the right time to do this because our core business is performing so well. And I think it's the right thing to do for the long term because there's great synergistic impacts -- look at the growth of masks and accessories in our US at 12% this quarter. That was helped by our Brightree, not only Brightree resupply but Snap and not Snap on Brightree, but Snap for other areas.

And so have we over-indexed on the resupply and a little less on the core platform maybe. And so I think what we're signaling here is we're going to invest in the core platform in Brightree and really make sure that's not only best in class and best market share, which it is, but it's innovating faster and faster to help more and more HME customers come on board.

So I think it's the right time for this portfolio management, and we're investing with those businesses. We've got three really strong leaders that are putting their plans together and executing and I met in person with them all this quarter. And I'm really excited about what we've got ahead for our SaaS-based businesses in Brightree high medical equipment and synergistic impacts as well as our work in Medifox and home health and MatrixCare.

Operator

Mike Matson, Needham & Company.

Unidentified Participant

This is Joseph on for Mike. I appreciate taking our questions. I guess maybe just a quick one on NightOwl. Obviously, it's pretty early days into the launch, but I was just wondering if you could give any more color around metrics? And how it's converting sleep patients and lowering that pretty high sleep patient backlog that you guys have called out? Much appreciated.

Michael Farrell - Resmed Inc - Chief Executive Officer and Chairman of the Board

Yes. Thanks for the question, Joseph. And yes, we don't really split out exactly what the NightOwl numbers are. But what I can tell you is, compared to where we thought we'd be in the growth of our VirtuOx, which is the home sleep apnea testing service that runs NightOwl as well as ApneaLink as well as even competing diagnostic tools, but mostly NightOwl we're seeing really good growth. That team is performing well and driving patients through the funnel.

I mean, you saw that in the 8% growth in devices in US, Canada, Latin America. Do I think there's more room for growth? 100%. Do I think that the big pharma, big tech, bringing patients in is going to be a tailwind? For sure. But it's an ongoing game of saying, let's make sure we get those NightOwls to every geography, to every primary care position who needs them.

And more importantly, frankly, offer the service to that primary care physicians so they don't have to buy the diagnostics because most of them want a service that can provide it for them. So it's really a combination NightOwl of wrapped in the VirtuOx service as well as providing for the pulmonary physician growth of Somnoware, so that they can manage the systems and read the studies and get them back to the primary care physicians who can then see their own patient, write the prescriptions and then the care can be managed for life.

So a bit of a complex equation. But I can tell you that the growth is good in VirtuOx, the growth is good in NightOwl, and that's what's contributing to our core business growth, which was strong, not just in the US but also in Europe, Asia, Rest of the World. We saw pretty good sort of 7% growth in devices across Europe, Asia, Rest of World this quarter.

And obviously, not driven by -- NightOwl, it's not as available there, test some more on larger, more complex sleep apnea testing systems and in lab, but we're even doing well in driving patients through there. So no patient left behind. We want to make sure the 2.3 billion have access to care and the 1 billion with sleep apnea have a better approach and a good part of that.

Operator

Andrew Goodsall, MST.

Dan Hurren - *MST Marquee - Analyst*

Oh, good morning. Sorry, it's actually Dan Hurren. Look, thanks for your comments that you made before around competitive bidding. But sort of reflecting back, I'm not sure you actually gave us your thoughts on what you think the range of outcomes will be. But your commentary is bullish and confident as ever.

So I guess you must have a view on how competitive bidding will play out, So perhaps I'll push you there a little bit just to narrow your thoughts on the range of outcomes there?

Michael Farrell - *Resmed Inc - Chief Executive Officer and Chairman of the Board*

Yes. Thanks for the question, Dan. I mean look, this is our 15th year probably 60th quarter of watching the competitive bidding landscape right from when this launched in sort of 2010. And I think the HME customers are very sophisticated. They understand their costs and they understand how to bid, and so they're working through all that.

So no matter what the scenarios are, the last round that we saw in 2021, just 4 years ago, they did a really good job of looking at their costs and bidding appropriately. And then we saw those bidding rates be right in line with what they thought. And then the government sort of went back and reassessed. Look, maybe we'll just stick to an inflationary adjustment approach. Look, I think the HMEs will do the same thing.

They'll bid appropriately. They know where Resmed is, which is we're here to support you. But this is something where we know where the costs are, their costs have gone up from 2021 to now, there's been inflation across it. They should bid appropriately in they're working through the process through AA home care and all these groups to work out how to do that well. So I think we've got a mature sophisticated HME base that will bid appropriately.

And I think the outcomes will be appropriate for them because they know the inputs they put into that system are the outputs they'll get. And they know that Resmed will be here to support them with the best smallest quiet, most comfortable most cloud-connected and most capable systems, and that together will help take cost out of the system by keeping people out of hospital, out of ERs and that this is about really that equation, which is sleep apnea diagnosis and treatment is a cost saver for the health care system.

That's what I advocate for us as Head of AdvaMed there about all of Medtech. There's an ROI of Medtech for the US government. So it's a very good investment for them. And so that applies to both the lobbying on the 232 as well as on competitive bidding. So I'm confident that the outcome of this will be good because the sophisticated players going in and they know what to do and they know that the beneficiaries are the ones they should focus on. And that's what we're all here to serve them.

Operator

Thank you. We are now at the 60-minute mark, I'm going to turn the floor back over to Mick for any further closing comments.

Michael Farrell - *Resmed Inc - Chief Executive Officer and Chairman of the Board*

Well, look, thank you for joining us for the earnings call today. Our fiscal year 2026 is off to a great start, strong 9% headline, 8% constant currency growth. On behalf of more than 10,000 Resmedians serving people in 140 countries worldwide, I'm pleased that they were able to deliver you another strong quarter of performance and for all our shareholders. We look forward to speaking with many of you over the coming weeks and to all of you here in 90 days. I'll hand back to Salli.

Salli Schwartz - *Resmed Inc - Chief Investor Relations Officer*

Great. Thank you, Mick. I'll echo Mick, thank you for everyone for listening, and we appreciate your time and interest. If you have any additional questions, please don't hesitate to reach out directly. Kevin, you may now close the call.

Operator

Thank you. That does conclude today's teleconference and webcast. You may disconnect your lines at this time, and have a wonderful day. We thank you for your participation today.

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