



ResMed Inc.

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David Lowe: Good morning everyone, my name's David Lowe. I cover healthcare for J.P. Morgan in Sydney, Australia. This morning I'd like to welcome Mick Farrell, CEO of ResMed. Over to you, Mick.

Mick Farrell: Perfect.

David: Sorry, excuse me. Before we begin, we've got the breakout room is in the Yorkshire, across the hallway. Thanks.

Mick: Perfect. Thanks, David. Welcome everybody to this. We turned up the heat in here because sleep apnea and COPD is such an issue. That's why we turned the heat up in this room. I'm going to make some forward-looking statements. You can read the details of that on our website.

Today at J.P. Morgan we'd like to talk about ResMed's 2025 strategy for the first time publicly and really lay out over the next six, seven years where ResMed's going and what our future holds. The strategy's based on a whole bunch of information that you will have seen probably every presentation over the four days of this conference.

Demographic trends, we have increasing costs from chronic care. We all know we have an aging population. I've got a couple of facts here. Nine percent of the world's population right now is aged 65 or older. By 2050 that will almost double to 17 percent of the world's population being of retirement age.

This is a global epidemic that's happening with aging of the population. Tied to that is the increasing burden of chronic disease, growing healthcare costs, or sick-care costs as they're mostly treated in many developed nations. As we all know, there's a shortage of many types of physicians.

On the bottom line, there's a whole bunch of micro trends that I know you can't see from the front

rows up here because I was sitting there. I'll talk through them. Getting the correct care to the correct patient when needed, having engagement of patients, not just through high-deductible health plans and health savings account, but being engaged in their therapy.

Data availability and the analytics to turn big data into actionable information. We think that these are things that ResMed on the micro side can act on and on a macro side can help solve some of the problems.

We had previously a three horizon strategy for 2020. This is our three-circle strategy or three-disk strategy for 2025. The headline is that ResMed has an ambition, a goal, a purpose to impact and improve 250 million lives in, what we're calling out-of-hospital healthcare.

We think that hospitals are places where sick care happens. In the home, the hospice, the long-term care facility, the school nursing facility, and so many other areas of out-of-hospital care is where people want to be. It's where they live and where the best healthcare can be provided. We think we can impact 250 million lives in that space.

I'll talk through how we get to that. Our purpose is to do just that, to empower people to live healthier, and happier, and high-quality lives in the comfort of their own home where they live. Our growth focus in being able to achieve that is our core business of sleep apnea, sleep suffocation where we have 900 million people worldwide.

Secondly, in lung disease, chronic obstructive pulmonary disease, number three killer in the Western world, number two cause of re-hospitalization. Thirdly, in our new and growing area of business, the third leg to our stool here of software as a service in the out-of-hospital setting. I'll talk through that.

The growth advantage, what makes ResMed the best company to be able to achieve this is that we are focused on tech-driven integrated care. I'll explain what those buzzwords mean. Technology-driven, software-driven care that integrates all the way from awareness, to diagnosis, to treatment, to management, to ongoing therapy.

Our growth foundations is our team, the 6,500 ResMedians selling in 120 countries worldwide. We only hire high-performing, diverse, and entrepreneurial people. We empower them, hopefully, with some of the best skills and capabilities. We're growing some of the best skills in AI and ML, artificial intelligence and machine learning advanced analytics within our space of medical devices.

We've got some partnerships. I'll walk through each of our three businesses pretty briefly here and talk about their strategies as well. Our core business is sleep apnea. I call it sleep suffocation. Not many people know the Greek words for without breath, which is apnea. Everyone knows what it means to suffocate. Our strategy within our sleep business is to focus on three customer groups.

Firstly, to optimize efficiency for our providers. Secondly, to deliver world-class, best-in-class patient experience. Patients have so much more say in their care these days. We think delivering that top world-class patient experience is critical to success. Thirdly, to work with providers and payers to deliver payer-facing solutions that enable integrated care across the spectrum.

I mentioned this number earlier. These are the actual data. If you take a cutoff of suffocating five times per hour or every 12 minutes of sleep, there are over 900 million people, 936 million people worldwide who suffocate every 12 minutes of sleep world-wide.

If you take the cutoff, where some countries around the world do, where you have to suffocate 15 times per hour, which is every four minutes of sleep, to qualify to be called someone who suffocates enough for treatment, then it's 424 million people worldwide who have sleep apnea at that level. This is a global epidemic.

Sadly, these numbers go up every year due to the macro trends of aging and to changes of diets and BMI around the world. The other opportunity with this disease state is that it is only, at most...It's probably in the United States 20 percent diagnosed.

It's less than 10 percent, 15 percent max diagnosed in Western Europe and well less than 5 percent diagnosed in Asia, less than 1 percent in many countries within Asia. On the right-hand side of the chart, some of the complications of untreated suffocation. It leads to and contributes to cardiovascular disease and metabolic syndrome in a very vicious cycle of interaction with those diseases.

What's ResMed's role here? We're the global leader not just in the number of devices and masks we sell but in innovation in this industry. We make the smallest. We make the quietest. We make the most comfortable treatment for patients who have sleep apnea. We also, in the bottom right-hand corner, make the most connected treatment.

I'll talk through the importance of that as we go through this presentation. We have over three

billion nights of medical data in the cloud. One of those facts is actually wrong now that we bought MatrixCare. The 66 million patients in out-of-hospital networks should be north of 80 million patients in our out-of-hospital network including MatrixCare.

Drilling down on that 80 million patients we have 8 million that are specifically within AirView. We have nights-of-breathing data that doctors can look at on a by-exception basis. Healthcare systems, Kaiser, Intermountain who's up here at the non-profit section talking today, can access across a portfolio of patients and combine it with data from other disease states.

Really importantly, we have six million 100 percent cloud connectable devices on people's bedside tables that they're breathing on every night, either a ventilator or a CPAP device. 1.5 million of those patients have chosen to go to ResMed, and log in, and access their own data.

This morning, 1.5 million patients had the ability to click onto myAir and see how they slept last night, get a myAir score. Tells them how they slept, how they breathed and gives them coaching tips throughout the day.

What does all that big data mean? Big data on its own is useless. Actual information is useful. Through some pretty sophisticated data analytics and AIML algorithms, we're able to turn those three billion nights into something that works for the individual patients.

We're able to increase adherence for patients on a device that you have to put on your face every night from an average of 50 percent, which is like the pill adherence that you get on an average pharmaceutical, up to 87 percent, just if they're logged on, and they're using myAir, and they're on our AirView system.

87 percent adherence, we think that's a huge thing. Many pharma and other med-tech companies are talking to us about how we achieved that. Our goal is actually to spread the word on that, on digital health. I'll talk about that later.

On myAir, we're actually able to, combining these, reduce the labor costs of setting a patient up on CPAP therapy by 50 percent. That makes providers, when they start using our system, to find it one that they don't want to switch from and one that they want to help us make even better. I'll talk about how those all go into play.

We're not doing this alone here at ResMed. We know that we are treating and have the world's best data well, if you like, in sleep apnea and COPD. There are data lakes that others are

creating looking at other chronic diseases like heart failure, like atrial fibrillation, like Type 2 diabetes.

We've formed partnerships on the awareness front with a group called Sleep/Lambs. We actually spun off our technology and formed a partnership with a private equity company to go and reach out to consumers, to those 900 million people worldwide, through physicians who have television programs and can reach consumers in ways that a medical device company can't.

We've also formed a partnership with Google, with Alphabet, the parent companies of subsidiary Verily, in the life sciences space. What Andy Conrad is trying to do there -- they just got some funding on the private equity side recently -- is to create that data lake, and to keep patients out of hospital, and bend the cost of that healthcare curve.

We think that with the best data in sleep apnea and COPD, we can be a big contributor to that. Our joint venture will allow us to benefit from that as well with Verily. We can talk about that in the Q&A if you like.

Our second most important business, which is probably the most important business if you put the hat on of a hospital CEO, or a healthcare CEO, or the minister for health for a Northern European country is our respiratory care business and attacking the very severe disease state of chronic obstructive pulmonary disease.

Our strategy within respiratory care and the COPD space is really simple. It's one we're going to win in the core. We're going to have the best non-invasive ventilators, life-support ventilators, and now our portable oxygen concentrators in the market.

Secondly, we're going to expand what we do in that space. We're going to put connectivity onto all of those devices. We already have it on the NIV, the non-invasive vents and the life support vents. We're going to add it to our portable oxygen concentrators and create an ecosystem so that ResMed has the best data well in COPD data in the medical space.

Then, the third horizon there is transforming COPD healthcare delivery. Through our acquisition of Propeller, we now have access to the other 85 percent of COPD data which is the inhaled medicines, both the chronic and the acute exacerbation meds, both on the asthma side, but really importantly for our strategy, on the COPD side.

I'll talk about the Propeller acquisition and how that expands our third horizon of growth within

respiratory care in a couple minutes. COPD, I mentioned this earlier, huge chronic disease, number three cause of death Western world, number two cause of re-hospitalization.

Almost 400 million people worldwide suffer from this lung disease. Huge numbers, billions of euros and dollars spent, mostly on sick-care treatment with an exacerbation in the hospital. More than three million people die every year due to this disease.

What can ResMed do about it? We have the devices that you all know. We have a full range of ventilation. We have oxygen concentrators. We also have experimental new therapies like high-flow therapy that are growing in this space.

Our goal is to absolutely win in the core and have the best in each of these categories. We are well on our way to doing that. A recent acquisition that we made for 225 million in the last quarter since our earnings call is Propeller Health. Propeller is an amazing company. I met David Van Sickle and the team up there in Madison, Wisconsin.

I'm going to go tomorrow, step out from this beautiful banking conference, and go to blocks next door to the Propeller software head office here, just off Union Square a couple of blocks from here and talk to the software team. Our goal with Propeller is really simple. We're going to keep this as a stand-alone entity. It's an incredibly successful digital health company.

We're not going to have any disruption to its core business. The management team, David Van Sickle and all his team, are remaining in place. Part of the acquisition was to make sure we had great employment agreements with that strong management team. That momentum is all going to continue.

What does ResMed bring to the party? ResMed brings a number of things. We bring long-term financial stability. Rather than being owned by a private equity who could move every five, seven years, ResMed is in this for the long run. We've been at it 30 years now, this year, in sleep apnea and the last 10 years in COPD. We plan to be doing this for a long time to come.

We've also got a proven ability to scale digital health. Not only to the numbers of people, 80 million patients and 8 million on cloud-connected but also geographically. Propeller's done a great job in the US and some European countries.

We sell in 120 countries worldwide. We think we've got an ability to accelerate the growth of Propeller outside the US and to also reach across the silos into sleep apnea and into our software

as a service environment.

I'm really excited about the relationships Propeller has started with Boehringer Ingelheim and GSK. We have called up and talking to those pharma companies, plan to continue to grow those relationships along with the Propeller team.

What has Propeller achieved? Apart from the partnerships with the big pharma companies and having the world's best connected digital inhalers for asthma and COPD, they've actually achieved some pretty remarkable outcomes for, what people were calling, a start-up company. They have increased the relative adherence for patients with uncontrolled asthma for the chronic meds, not the acute meds.

You're always going to have an acute med. If you're suffocating you're going to take your acute asthma meds. For the chronic meds, they increased relative adherence by 58 percent. Again, by engaging with an app and having digital health to know when you clicked, how you clicked, and when you didn't click, and when you should have clicked on the inhaler.

Similarly, in uncontrolled COPD, we've seen a reduction of healthcare utilization, the sick care utilization, by 25 percent. These are fantastic early data from Propeller. We plan to continue to grow as we grow with that Propeller team.

Our third business, a really important, fast-growing business, high-margin, monthly recurring revenue. I love this business. When you've made the March quarter, you've made the December quarter. Monthly-recurring revenue, quarterly-recurring revenue, it's a lovely part of the business. We're now in our third year of owning Brightree, which is our largest investment to date in the software-as-a-service space.

It goes a lot beyond Brightree, which is focused on a particular out-of-hospital vertical called HME or home medical equipment. We absolutely are the world's leader in providing out-of-hospital software for the HME or home medical equipment industry. Through our acquisitions of Healthcare First...I'll talk about a recent one in the last 90 days called MatrixCare.

We're now across eight different verticals in out-of-hospital healthcare software. We're in home health. We're in hospice. We're in private duty. We're in skilled nursing. We're in senior living. We're in life-plan communities. Our goal within this space is to be the global leader, start becoming the US leader in out-of-hospital software provision.

We think our experience at Brightree and Healthcare First and the fact that many other healthcare software people are focused on, what I think is a distraction, which is the sick care system at the hospital. They're not enough focused on this home care space.

If you look at ResMed's portfolio, 90, 95 percent of our revenues are out-of-hospital. Out-of-hospital medical devices for sleep apnea, out-of-hospital medical devices for COPD, and now out-of-hospital software. We think we have the right to be the world's leader in this space.

What can we provide the customers? We can have interoperability as a patient moves through different care settings, as they age or change acuity of their different disease. We can manage populations across these disease states.

We can work with Kaiser Permanente, Intermountain Health, Anthem, United, or the government of Norway or France to help them integrate people as they move from these different care settings.

What are some specific things we've done? We've talked about these in the past. What we do with Brightree is help home care providers be the most efficient that they can so that a small mom-and-pop or a large regional can be as efficient as an international, multinational company that is operating in the space.

AirView allows doctors to do management by exception. You don't have to talk to each of the 5,000 patients that doctor has. She can call up the three or have her nurse call up the three that need to be talked to. AirView does management by exception. myAir, I talked about that.

Engaging patients is how you change healthcare, particularly when someone has to take that pill or click that inhaler, or put that CPAP on, or use that ventilator. If you talk to people they respond. That's our experience in this space.

We've got a reasonable history. We just have eight acquisitions here on this space. We've got a strong history over these last seven years of acquiring companies in the software as a service space and integrating them into ResMed, to the ResMed portfolio, to the ResMed family. We've got a good relationship with management teams in that space.

As a case in point, the CEO of Umbian, that we bought in August 2012, is not only still at ResMed, Raj Sodhi is the Present of our software-as-a-service group and the one that's helping to integrate and put all these teams together.

Some landmark acquisitions there. Brightree, obviously, \$800 million and now in its third year as we hit February 2019 very shortly. Operating growing very well. Healthcare First has, as we reported on our last earnings call, been growing well and a great part of our portfolio.

You're probably most interested in the acquisition that we haven't talked about publicly yet, which is MatrixCare which we acquired since our last earnings call for \$750 million. MatrixCare is a really exciting enterprise solution for a number of new verticals for ResMed. Skilled nursing facilities, senior living facilities, life plan communities, and across the home care private duty space.

We're really excited about what they've done in interoperability across those four verticals. We're even more excited about how we can apply it to the home medical equipment side and the home health, home hospice side that we had with Healthcare First and Brightree respectively.

Really excited about this. We expect it to be immediately accretive to growth, margin, and EPS. Apart from being just a great strategic fit and financial fit, we think it's going to add to the capabilities of our global company and particularly in our software-as-a-service division.

I've talked about all these. All the way from, on the left-hand side, home medical equipment companies to the right-hand side, life-plan communities. ResMed is now participating in a number of verticals in out-of-hospital care. We're not done yet. In the value we're getting out of these acquisitions and the value we're providing to our customers.

We are still on the look-out for appropriate tuck-in acquisitions and other to provide to this. We are pivoting a little to focus on extraction of improved outcomes for patients, improved care for patients and doctors, and great financial performance for you, our investors.

I talked about those three business verticals. I think it's worthwhile spending a couple of minutes here, at the end, talking about digital health technology, which is a foundational element across all those three businesses and what it is.

Digital health technology is taking software capability and taking analytics, AI, ML, deep neural network technology and applying them in the three spaces that we operate. We've already got a connected health ecosystem.

We're building the world's leading out-of-hospital software-as-a-service ecosystem. I would say

we're on mile one of a marathon in data analytics for AI and ML as it applies to our industry.

We've formed some good partnerships that I talked about earlier. We're also building a really strong internal ResMed team that not only knows the techniques of data analytics, and AI, and ML but can apply them very specifically within sleep apnea, within COPD, and within out-of-hospital software-as-a-service.

Going back to my first slide, talking about the macroeconomic trends and the pain points, our goal is to address those pain points for one of the most inefficient industries in the world, which is healthcare delivery. To make it, not quite the Six Sigma that we get when we're manufacturing our masks but certainly better than the one or two sigma that we're at now.

This is one of the world's biggest opportunities and challenges. We think ResMed can help fix that. This is a little case study in what we've done with end-to-end connected care and sleep apnea, respiratory care, and out-of-hospital software. We plan to continue that journey.

My last two minutes, you guys have seen all these financial results. They're from Q1. We don't have any new data. Really briefly, we had a really good Q1, 12 percent headline growth, 23 percent growth in non-gap net income, and 23 percent growth, similarly, in non-gap earnings per share with strong cash flow.

This isn't our only quarter having done that. We have a 30-year history. Certainly, over the last five years have seen really solid nine-percent growth in both revenue and adjusted EPS. We've achieved some really strong leverage these last four to six quarters. We plan to and will continue to do.

We've also provided cash back to our shareholders through a strong growth of 16 percent of our dividend on a compound annual adjusted basis. One interesting thing that we don't put our hand up or know how these awards are particularly calculated. We were recognized in the last quarter by both "Forbes" and "The Wall Street Journal" for being a top corporate citizen for giving back.

I don't think that's just the 14 million lives we changed in sleep suffocation but the fact that we take care of our customers. We take care of our employees. We take care of our communities. We give back to charities, give people volunteer time off. You could ask, "Well, what's the ROI of giving people time off to go work in a charity in their community?"

When you go and help people who are in your community, you come back to work Monday

morning, you're fired up with passion. You want to help the company that allowed you to help your community. We do it because it's the right thing. It's nice to be recognized by Forbes and The Wall Street Journal for that.

I'll close with this before we go to questions. We're looking at the market dynamics. We're applying ResMed's growth and innovation in both sleep and COPD, and our new space of out-of-hospital software. We've achieved great financial results in history. We plan to keep doing so in the future. I look forward to seeing you at the break-out. Thank you very much for your time.



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