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RMD - Resmed Inc at JPMorgan Healthcare Conference

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PRESENTATION

David A. Low - *JP Morgan Chase & Co, Research Division - Research Analyst*

Good morning, everyone. My name is David Low. I cover healthcare for JP Morgan in Australia. This -- with us this morning is Mick Farrell, CEO of ResMed. I'll hand over to Mick immediately, but we have a breakout in the Yorkshire Room down the corridor as well. Thanks, Mick.

Michael J. Farrell - *ResMed Inc. - CEO & Director*

Great. Thanks, David. And welcome, everyone, to day 1 of JP Morgan. This is our forward-looking statements that I will make during the presentation. You can read this on our website, investor.resmed.com.

I wanted to start with our ResMed strategy at the 50,000 feet level and we put a strategy out to 2025 that we presented actually last year here at JP Morgan and we are in play for that for 12 months. I'll give a little bit of an update as to where we are and why our long-term goals still make a lot of sense.

This is -- it's kind of trivializing any type of strategy to put 500, 700 pages of good strategy work into 1 page, but that's the challenge for us to write a short letter here and to try to summarize what that is. In short, what ResMed is going to do is to transform lives in outside-the-hospital health care. So as you walk the floors and talk to all the different companies today, my bet is 90% of them plus are focused on what I would call red ocean part of health care, which is hospitals and acute care. ResMed, 95-plus percent of our revenue, profit, EBITDA, cash flow comes from outside-the-hospital health care, whether it's treating sleep suffocation, known as sleep apnea in the home; treating lung disease in the home; helping people with medications for COPD in the home or on the go; or helping them in outside-the-hospital health care, whether it's a skilled nursing facility and other settings such as home health and hospice. So I'll talk through all of those.

One key part of this is that we are going to do this through a digital capability, a digital health, fundamental capability, which has really transformed our whole industry. And I think ResMed is at the forefront of this. We have over 5 billion nights of medical data in the cloud. We have over 10 million nodes on people's bedside tables, sending data to the cloud every day. And I'll talk about how that's not just a talk about the words or the buzzwords or big data, but how we're turning it into actionable information for our customers.

People think of digital health, and they think of just the purely applications around software. And we do have paid for Software as a Service. It's now 13%, 14% of ResMed's revenues come from Software as a Service. But digital health impacts the other 86% of our business as well. Everything we do is fundamentally transformed by the fact that we are interacting with patients, with doctors and health care systems through digital health technology. It's a fundamental transformer of our business. The next phase of that, which is really this looking forward part is advanced analytics, what are we going to do with our capabilities in artificial intelligence, machine learning, machine intelligence to use that information to lower costs, improve outcomes and transform our industry.

So this talks to the fact that digital health now is actually an integrator across everything that ResMed does from our Propeller app that helps people understand where, how and when to take their medications. Through to their CPAP device, just encouraging people and coaching people, like the gentleman who just ran into me out of the front, talking about his AirMini and how he needs to be more engaged with that. And our app, myAir,



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now has over 2 million people, like John outside, who have transformed their lives by their own data and finding out how well they slept last night. By the way, I got a 95. I've got 7 hours of sleep. So hopefully, in the Yorkshire Room afterwards, the Q&A performs pretty well based on that.

So I said we have over 5 billion nights of medical data in the cloud and 10 million 100% cloud connectable medical nodes. I also mentioned the 2 million people, end users, who despite doctors not encouraging them to get their own data and health insurance system is not encouraging them, they found a way through our social media or some of our marketing to get their data in the bottom right-hand corner there.

The bottom left-hand corner is also pretty interesting. 100 times per second somebody interfaces with our ResMed cloud. And that could be a patient checking their myAir score, like John outside or it could be a doctor at Intermountain Health, looking across 200,000 patients on their sleep apnea devices and then correlating it with their diabetes data or their cardiovascular data and working out how to lower costs and improve outcomes.

So I'll walk through our 3 business segments now. Our primary business segment is Sleep, and the Head of our Sleep business is here, Jim Hollingshead, in the front row. This is our biggest challenge, and it has been for the 30 years that ResMed has been in business. You're unconscious when you're asleep, if you're sleeping properly. And so you do not know that you suffocate. Your bed partner does. And one of our biggest challenges is helping the people who are suffocating to be aware of it, not just from their spouse, but from objective measures. And so we've invested in a number of diagnostic tools and screening tools. And I'll walk through some partnerships we've had with tech companies that have helped us expand our capabilities for this.

One of the areas that's really interesting is those people who have sleep apnea have many other cardiovascular and cerebrovascular diseases, and the implications of that impact all of the body from literally the brain through the heart and the whole cardiovascular system. Untreated sleep apnea kills. And I will show the data on that from our Sleep Heart Health Study a little later.

So this is a study from our big data that shows the prevalence of sleep apnea is between 400 million and 900 million people. So doctors will determine your severity for sleep apnea based on how many times you suffocate during the night.

If you suffocate every 12 minutes of sleep, doctors will call that mild sleep apnea, all the way up to suffocating every 5 minutes of sleep. We think that when people are empowered with their own suffocation knowledge, they will want to seek treatment. If you take that number of mild sleep apnea, there were 900 million people worldwide who suffer from sleep apnea. If you require suffocating every 4 minutes of sleep, as some health care systems do, Japan, there's only 400 million people worldwide who suffer from sleep apnea. Even if you take the 400 million number, we're less than 5%, 10% penetrated into this global number. This is a monster problem, and ResMed is really just at the start of our core business of sleep apnea.

So how are we going after finding all these patients who are out there? Well, ResMed has been working for 30 years in our little medtech silo and partnering with our pulmonary and neurology doctors in the field of sleep medicine, and we've done a pretty good job. I mean, we've got now maybe 20 million people worldwide who have been diagnosed, treated and are on therapy. But if there are 900 million people out there, we've got to do a better job at getting our marketing and partnering with people who interact with consumers, with sleep concerned consumers, with people who are suffocating and don't know it in better ways.

So we partnered 1.5 years, 2 years ago with Alphabet, with their daughter company, Verily, the sister company of Google. And if there's one thing Google can do well, its track you. If you type in, I like barbecues, you're going to get ads for iGrill, all day, every day, for the next 24, 48 hours. And if you don't click on any, they'll try again.

If you type in "my husband snores" or "I think I might suffocate," you're going to get slammed with ads from our partners, CPAP.com and easybreathe.com for the latest new F30 mask from ResMed or a new device, AirMini, a travel CPAP. But you're not going to find out if you're an undiagnosed consumer of what to do about this. Why when you type that in, does it not pop up, rule out sleep apnea. For \$99.99 available in all 50 states, rule out this disease that you Googled for your husband or yourself.



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So we are partnering with Verily on this. It's early stages. I mean, that idea of identify, engage and enroll undiagnosed consumers is one path of our Verily partnership. The other part, obviously, is sort of Andy Conrad's dream, which is to transform the field of chronic disease management through their diabetes vertical, their COPD vertical, their cardiovascular vertical and now their sleep vertical. And we are strong partners in that as well. But both parts of that identify, engage, enroll, as well as chronic disease management, we think, will pay off for ResMed.

So this is the study I talked about earlier when I said that undiagnosed, untreated sleep apnea kills. We now have the peer reviewed and published evidence to show that. If positive airway pressure is prescribed, there is a 62% reduction in mortality. And this study didn't even go all the way through like in our digital health, where we have the capabilities to know, not that you're prescribed but you're diagnosed, treated and on management using the device every day. This was just the prescription, and we show a 62% reduction in mortality.

So many of you are investors in the room. Many of you also might be thinking I might be a patient. This is life or death, and it's worth seeking treatment for it.

So we have the mortality data, but a lot of care in medicine also focuses on the dose response relationship, right, not just correlation, but causality between disease states.

We now have data from this big data study that was published in the Blue Journal, which is the sort of the highest end journal in the field of sleep medicine, the Journal of Clinical Sleep Medicine. And we show that for every hour that a person uses our therapy, we're able to lower their number of inpatient visits to a hospital or acute care setting by 8%. We're also able to lower total overall visits by 4% for every hour of sleep.

Now before you do -- the mathematics people in the room, before you do what someone did on LinkedIn when I posted this 6 months ago, no, if you sleep 12 hours of sleep, it doesn't mean you're perfectly immune from any hospital visits for life. It tapers off at around 7 to 8 hours, which is what adults should get for sleep, but you can get that 50%, almost 56% reduction at 8 hours of sleep, reduction in hospital visits based on use of our therapy.

So remember earlier, I was talking about, it's either 400 million people, if you're allowed to suffocate every 5 minutes of sleep or 900 million people if suffocation every 12 minutes of sleep matters. These data show that in mild sleep apnea, that lower level of sleep apnea, we were able to prove a strong improvement in quality of life through the SF-36 vitality scale. So even in mild sleep apnea, where it's not as obvious to your bed partner, it's not as obvious to the doctors and in some countries, you won't get treated, we're able to show a huge improvement in patient quality of life. And we think, obviously, there's more empowered patients and sleep wellness is coming into the play. We think that 500 million people, even if their doctors don't prescribe it, if we show them the suffocation and show them how much better they're going to be, as for me, as a husband, as a father and as a CEO, because I sleep well and breathe well every night, we think this expands the market to those 500 million, whether or not the medical systems in some countries keep up with the data.

So this is just a summary slide of everything we do in sleep apnea. We have the devices, the patient interface systems. We are #1 in every category on this slide. And we're really excited about that, but we take it with a very productive sense of paranoia. We put 7% to 8% of our revenues back into research and development to make sure we have the smallest, we have the quietest and we have the most comfortable sleep apnea therapy on the planet. The change that we've made is that bottom right-hand corner, making them the most connected, and I'll talk a little bit about the benefits of that.

So our second tier of business. So sleep apnea is 80-plus percent of our revenues and profit, around 10%, just under 10% is in the field of Chronic Obstructive Pulmonary Disease or our Respiratory Care business. So let me walk through that briefly. So this is a whole another disease state. COPD is another epidemic, not on the same population scale of sleep apnea. But on the severity scale, it is incredibly, incredibly damaging to the global health care system.

COPD is the #3 cause of death in the western world. It's the #2 cause of hospitalization. And really importantly, it's the #2 cause of re-hospitalization, patients coming back within 30 days, within 60 days, within 90 days. In the U.S., as we know with ICOs and other parts, we are starting to see reimbursement impacted by those rehospitalizations, and ResMed can be a big player in stopping those hospitalizations.



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COPD can be caused by smoking, which is on the decline. It can be caused, we think, potentially, and many key ventilators do by vaping, which sadly is on the increase, living in New York, San Francisco, Paris, Delhi, Beijing will lead to SO_x and NO_x in particular, it's going into your body, whether you can see them or not. We've done a good job of getting the particulates out, but lung disease will continue in industrialized cities. And of course, there's genetic components as well.

So that whole field of 380 million people, plus worldwide who suffer from lung disease, ResMed really used to only play in the red section here on this chart, which is that right-hand corner, 1%. When you were really sick, almost on your deathbed, 12, 24 months of life left, ResMed would provide good quality of life and help you with noninvasive ventilators and life support ventilators.

A couple of years ago, we expanded into the purple area on this chart. We got into the field of oxygen. Filtering nitrogen out of the air with Zeolite and then creating concentrated oxygen for patients with COPD. This provides mobility, allows you to travel across the country and have the little bit of your lungs that are left of the football field. You think of it like we're watching the playoffs last night, that whole football field, think of 1/3 of that football field of dead grass, I know it's artificial, but imagine it was real grass. 1/3 of it dead and the players only could play on that 2/3. That's what a patient with lung disease has. And the oxygen allows people to use that 2/3 or half of their football field of surface area in their lungs for breathing.

Most recently, actually, we announced it here at JP Morgan a year ago, we acquired a company called Propeller, which got us into the blue area here because before you need those ventilators and before you need oxygen, you are taking inhaled medications, 1, 2, 3 and then up to 4 or 5, sometimes more inhaled medications per patient.

One of the challenges with that is adherence. How do you get people to adhere to medication? We can -- when we have a patient using -- in our sleep apnea space using with -- the doctor using AirView and the patient using myAir, we can achieve 87% adherence in sleep apnea. And we're asking you to put a piece of plastic on your face every night and turn on a device. Eighty-seven percent adherence.

In the medication, pharmaceutical field, I challenge you to go to any presentation today from a pharma company and see an adherence rate above 50%, 60%, maybe 70%, they'll be lucky to get there. We think that with Propeller and ResMed's capability and our cloud capabilities, our coaching capabilities and our advanced analytics and our way to engage with the end user, we can drive adherence rates up in the inhaled pharmaceutical field for COPD. And we have data to show we can improve adherence by 58% from our work with Propeller and to reduce all cause hospitalizations in COPD and asthma by 25%.

So again, we're not just going to take the data to the cloud. We're going to put our process through some pretty sophisticated models. Just at a high level, think about this: COPD exacerbation is not just remembering to take that inhaled medication at 8:00 every day, it changes based upon what's happening out there.

If the pollen count is up in San Francisco, if the temperature reduces by 20 degrees in New York, we know, based on historical evidence, that's going to lead to an increase in hospitalizations. And if we can find a way to engage with that end user and encourage them to take their medication, we can not only improve their fundamental core disease of lung disease, but also understand the environmental factors that impact lung disease and bring that into the advanced analytics, so that the device is able to contact that end user.

We also work through caregivers' loved ones because sometimes you won't take the medication, but if we call your daughter or text her, she will call you up and say, "Mom, really? You want to get back to hospital? please take your medication." So there's a lot beyond just the advanced analytics part, but working through the caregivers and loved ones as well.

So this is our spectrum of products and services for the Respiratory Care space, again, all the way from the digital therapeutics, oxygen, high flow therapy, all the way up to the highest end of NIV and life support ventilation.

So I'll cover quickly, I've got 6 minutes left here, our Software as a Service part and then talk -- bring it all back together, and then we'll go to the Yorkshire Room for Q&A.



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The Head of our Software as a Service business here -- is here as well, Raj Sodhi, who was the CEO of Umbian, which we purchased in 2012. So 8 years ago, and Raj is now the President of our SaaS division, bringing tech to ResMed. So this is a sort of snapshot of what ResMed is doing in outside-the-hospital Software as a Service.

Really importantly, if you look at the foundation, all of our sleep apnea and COPD care products are all in that outside-the-hospital ecosystem. But about 3.5 years ago, we -- after 7 years of partnering with a company called Brightree, who are doing Software as a Service for our customers, home medical equipment companies and partnering with them, actually purchasing from them market share data and working with them to understand how our industry would evolve, we realized that since we had such strong digital health technology capabilities in our core business, almost as a cost center, they were using those same digital health technology capabilities to improve the process flow and the business flow of our customers, and they were charging per user per month and making pretty good profit from our channel.

And so we purchased Brightree, and now we are the #1 provider of Software as a Service for our customers in the U.S. throughout those home medical equipment customers. As we look across the rest of outside-the-hospital health care, we saw that those capabilities could be applied to other verticals. And so this time, a year and 3 months ago, we purchased MatrixCare, which is Software as a Service, primarily for skilled nursing facilities and home health and hospice is a growing area. They also do some other verticals that you can see on the screen there but really strongly in skilled nursing facilities and home health and hospice.

We think ResMed can be the Cerner or the Epic of outside-the-hospital health care. I think I said that from this podium a year ago, and I got quite a lot of skepticism. But we just had an announcement a quarter ago or 2 quarters ago, Raj? That we've partnered with Cerner, and Cerner has chosen ResMed as the group that should take care of their home health and hospice customers. So they're exiting home health and hospice, and they're working with ResMed, putting our team up on their big conference to say that ResMed is their partner, and you should use Cerner for the in-hospital, you should use ResMed for home health and hospice. And we, of course, will API and share data and combine data. So it's a seamless transfer form for the customer. So we think that's a good validation of that, and more news will come in this space.

So what are we doing with our Software as a Service? Well, the key thing is what we're trying to do is provide seamless transfer of patients across all their parts of care and outside hospital care. If you go from home medical equipment to home health to hospice back to a skilled nursing facility and so on, right at the moment, there would be 7 different software platforms through those 7 verticals. Seven different entering of care and the caregiver loved one, taking care of their aging parent has to go in and take care of all that paperwork. Our goal is to make it seamless and to make it capable that a person can move in all outside hospital care settings with low cost and high efficiency.

So closing with the financials, most of you be across this. This is our September quarter, which for us was fiscal quarter 1 for 2020. We had 17% growth in top line, with good organic growth in the double digits as well. And we had non-GAAP operating income growing at 22% and pretty strong EPS and free cash flow.

If you look at the purple there, that purple is our outside-the-hospital Software as a Service. So that was about 13% of our business in the first quarter. And that wasn't the only quarter we've done that. We've been on the New York Stock Exchange for 20 years now. So for 80 quarters, we've had pretty strong performance there on NYSE on the big board. This is our trailing 5 years, double-digit growth on the top line, double-digit growth on the bottom line. And even with the financing of a couple of billion dollars' worth of acquisitions, pretty strong EPS growth these last 5 years.

I'll close with this before we head off to the Yorkshire Room for the Q&A. ResMed has a very strong and high focus on ESG. It's not just a 3-letter acronym for us. We really care about taking care of waste, because it actually is profitable for the company to do so. And we really care about our team and empowering everybody every one of the 7,500 ResMedians in 140 countries to make sure that we're doing the right thing. And it's nice to be recognized by Forbes and JUST Capital for being a really good player. It's more important that people actually believe it in our company, and it's very nice to receive these types of awards.

I'll close with this. It's nice to hit \$2 billion in revenues, \$20 billion in market cap. But when I talk to 7,500 ResMedians, they care more about the fact that we changed 50 million lives by keeping people sleeping better, breathing better and out-of-hospital care better. And with our SaaS side of the business, we treated 108 million people in the last 12 months. And our goal is to grow that volume by double digits through 2025. And we will change 250 million lives in outside-the-hospital health care in the year 2025.



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Thanks a lot for your time, and we'll see you there in the Q&A.

QUESTIONS AND ANSWERS

David A. Low - JP Morgan Chase & Co, Research Division - Research Analyst

Okay. Look, I'll ask the first question, and I'll try and repeat some of the questions that come from the floor as well. So Mick, I mean, I've followed ResMed for a number of years now. And one of the observations I've had is the market growth seems to have accelerated. Yes, 1 year, 2 years, 3 years, number of patients being diagnosed seems to be growing faster certainly than it was in my observation, 3 or 4 years ago. But if you could talk to in the sleep business, what do you think is driving that and how sustainable it is?

Michael J. Farrell - ResMed Inc. - CEO & Director

Yes. Look, I don't know if there's been a fundamental acceleration in the core market growth. I think you've got that sort of strong mid- to high single digits growth in our core market of sleep apnea, mid-single digits for the device end of the categories and then high single digits for the mask end of the categories. We have been outgrowing that, but I think it's through steps that ResMed has taken. And so I spent quite a lot of time on the prepared remarks talking about the digital transformation of sleep. And I think that lowering of costs for setting a patient up on care by 50% has increased the efficiency of the channel. And so therefore, increased our growth through there. But then also increasing the adherence, I talked about 50%, 60% adherence was the norm 5-plus years ago in our field, like all pharmaceuticals, 50%, 60% adherence.

With all the digital tools, we're able to get 87% adherence. Nine out of 10 people using a device when they're using myAir and the doctor is using AirView. That will lead to an acceleration, if you like, of mask growth because more people are adhering to it. So I think it's more active play in the field that has driven more engagement with the therapy from our customers and more engagement for the ultimate customer who's that person who is suffocating. And so that's led to a couple of 100 basis points maybe move in the fundamentals. And also, I mean, ResMed, we -- as I said earlier, it's productive paranoia, but we do make the smallest, quietest, most comfortable sleep apnea therapy devices. And so we have been taking share from our competitors as well.

Rob?

Robert A. Douglas - ResMed Inc. - President & COO

No, I think you're spot on, quite right.

David A. Low - JP Morgan Chase & Co, Research Division - Research Analyst

And perhaps that is it, it's the fact that ResMed's growing faster, and we cannot see the rest of the market, which makes that observation a little bit more challenging to unwrite. Look, I'll ask one more and then we'll see what else is out there, but I don't think we could go without talking about competitive bidding, given it's on the horizon again, and that's been a very topic for years and years. So maybe as a broad question, what do you expect to see next round of competitive bidding?

Michael J. Farrell - ResMed Inc. - CEO & Director

Yes. So CPI 21, they're calling it, so we went from CPI 1, 2, 3 to 21 because it's January 2021 that that part of this process we're going to play. Just to put it in perspective, this is like the 15th year that we've been working in this field since it was announced back in 2005 that the government was going to try to keep up with private pay on its reimbursement.



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And frankly, they're right in line. And actually, we just saw January 1 this year, a couple of weeks ago, a 2-plus percent increase, I said, in U.S. reimbursement through the competitive bidding process because it went up with the CPI. This is a question I usually hand to Dave Pendarvis, but I'm not going to make him run across here and do this. I'm going to hand it to Rob, who's right beside me.

Robert A. Douglas - ResMed Inc. - President & COO

Yes. So obviously, the competitive bidding process is implying that the bids are all in and nobody knows the answer to that yet. So we won't know until the announcements have come out and people aren't sharing what their bids are and even if they were you still wouldn't know, have access to the full range of bids. So it remains a watch this space, but the fundamentals in the revised programs are still all in play and the fact that you needed to put a bond into bid at the expense that the bids had to be really serious. The structure of the bidding in terms of players can only bid for sort of 20% of a particular market that they're bidding in means that there's going to be a spread of winners through there. And the way they're going to award the bids, maybe if you're going to have a clearing price, so people won't win a bid at a price even lower than what they may have bid at won't happen.

So it should be a much more sensible process that leads to a reasonable outcome. Now in our business, we don't go around saying prices go up, although it was very interesting as Mick said, that we actually did see a price increase through that for our customers. But obviously, whatever happens with them, that doesn't directly translate back to our business. So for our internal mission, we'll continue to be as efficient as we can and make sure that we can really treat more patients more efficiently as we go forward.

David A. Low - JP Morgan Chase & Co, Research Division - Research Analyst

I guess, some 5 years ago, the round of -- the second round of competitive bidding was a bit more disruptive and did lead to price adjustment. I guess, just to try and pin you down a little bit more. Do you think there's a risk that we go through that again? Or is this time different?

Michael J. Farrell - ResMed Inc. - CEO & Director

It's very different from 2013/'14 to 2020/'21 here because one fundamental difference is last time around in that CPI 1, 2, rebid 1, rebid 2, the government had a very peculiar auction process, where they lined up all the bids. If this water bottle is all the bids, they lined up the bids from the bottom to the top, and then they went to the midpoint and said, everybody gets that price, which, by definition, in an auction means that 50% of people are unhappy because they're getting a deal, but 50% of them is below the price that they bid that they thought they could make profitable growth here.

As Rob said, there's a surety bond that you had to put \$50,000 even to bid. So these crazy people who are doing suicide bids, where I'm in California, but I'll bid in New Hampshire just for the fun of it, they don't do that anymore because now in \$50,000 I lose if I don't get the bid. You're only going to bid if you actually have a chance to win.

The other part is they now take the top of the water bottle. So they take the final bid that gets to the volume required to take care of Medicare beneficiaries. So 100% of people are at a price that is equal to or above what they bid, so they can make profitable growth. So I think those 2 fundamental changes, the surety bond and the top of the funnel bid will make a big difference. And then there's some other changes about no one can bid more than 25%. So you'll have at least 4 bidders and capabilities and so on. But look, we -- as Rob said, we don't know. It will happen in January. But one thing we can be sure is that the government has now got a system that's pretty close. It's a private pay reimbursement and pretty much in line. It's going up a little just to keep with CPI. I think it will be a relatively benign change and that our customers, frankly, the ones that are still in this business, 15 years after they started are far more efficient, far more capable, they're using our digital tools. They're partnering with us on that. And we're lowering the labor cost for setting a patient up on sleep apnea therapy by 50%. That's why people are choosing our technology, and that's why those customers, I think, will be very good through CPI 21.



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David A. Low - JP Morgan Chase & Co, Research Division - Research Analyst

Great. Are there any questions from the room? Or I might continue on, please put your hand up if there's, I'm happy to repeat it. Mick, one of the other trends that we've seen and perhaps some accelerating in the U.S. market in particular is bit of consolidation amongst your customers. Just wondering if you could talk to that trend, is it something that you're planning for or worried about? What do you think of what's going on there?

Michael J. Farrell - ResMed Inc. - CEO & Director

Yes. Look, and it's actually related to your last question. With reimbursement changes and with the digitization of home medical equipment capability, there has been some consolidation in the field. People where it was a lifestyle business, mom-and-pop lifestyle business, those customers aren't really around so much. There are a lot of local players. But even if it's a small mom-and-pop local player, they're using ResMed's Brightree system. They're using the digital myAir tools. And they're providing, in addition to that, that great local care that they know the local doctors through the golf club in their local town and the relationship side on that, all the way through to big multinational oxygen companies that have distributors and work through the field.

And I would actually argue that the mom-and-pop customer using Brightree is as or more efficient than the big national working with a big database on a system that was set up in the '90s. And so it's a pretty stable environment. There is M&A within it. But I compare the U.S., which -- these questions are focused on. It is our biggest market.

What have we got, 3,000, 4,000 home medical equipment, 5,000 home medical equipment customers. In Japan, we have 5. And so I look at it and say, is the U.S. consolidating? Yes, a little bit. Is it going to be anything like Japan or France with double digits or low double digits numbers of customers? No. But look, I think some appropriate M&A is actually a good thing. And when there's a Brightree customer who buys a non-Brightree customer, that's good for us in a number of ways because, firstly, it improves efficiency for the space, but also improves our SaaS revenue at the same time. So we think there's even some upside in that M&A.

David A. Low - JP Morgan Chase & Co, Research Division - Research Analyst

Great. And maybe moving outside the U.S., we've seen some quite volatile sales numbers coming through over the last 2 years. And we know that there's been changes -- regulatory changes, particularly in France, but perhaps, it's sort of a broader question. Maybe you give us a reminder of what happened in France. And do you see that rolling out in any other countries anytime soon?

Robert A. Douglas - ResMed Inc. - President & COO

Sure. So in France, we had been lobbying for a long time because we felt that it made sense to look at the effectiveness of the connected care. And the results in the U.S. were pretty amazing and they've really driven the market there. Really, the sort of the system in France understood, got that message, decided that, yes, they were going to reimburse connected care. And then, of course, it's not as hard as changing the French pension system, but there was a lot of objections, and we went through several years of legal cases around that. But eventually, the French system introduced a differential reimbursement. So if you're on a connected care device and you've got -- and you use that you actually -- as a home care provider, you got more reimbursement for that patient than for a patient who is not on connected care.

So our customers saw this coming and understood that it made a lot of sense for them to accelerate their fleet replenishment. And again, just to explain, in France and in most countries other than the U.S., the reimbursements provided for a period of care as opposed to for providing the machine. And so you would build for that period of care and they buy our machines of us and view that as a fleet and they treat the patients with it. That patient stops using it, in many cases, they'll get it back and give it to another patient, and they have a lifetime for that machine. And so our sales really are incremental volume of patients being treated plus that fleet replenishment.

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So at the time the regulations were changed, they had a lot of non-connected devices, and they decided to accelerate their fleet replenishment and upgrade to AirSense 10s. So we had a lot of -- many of them were S9s, switched out earlier than what their usual life would be of S10s. That accelerated ourselves. We had some very strong sales in France through that.

But then once those -- that fleet replenishment was done, our French sales then went back to the new patient growth only because we've accelerated the fleet replenishment. That will take a while to go through. That's still in progress, but less of an issue, but it's definitely still in progress, and it wasn't just an annualized thing. There was an annualizing effect of the increased sales. But if you bought forward a few years fleet replenishment then that's a few years before you then start re -- upgrading those 5-year-old devices or whatever the exact number was.

So that's all been in play. And it's -- as you say, it's a tough explanation to give and to get everyone to understand what was going on there. We don't expect that the same thing will happen in other countries. Obviously, we'd like to see other countries have those sort of connected care models come in, but the lobbying and the political process to get those changes happen, but it's very hard for us to predict the timing forward.

Michael J. Farrell - ResMed Inc. - CEO & Director

But then looking back on it, David, some volatility, the volatility was, we outgrew market and drove -- we transformed health care in France for sleep apnea.

David A. Low - JP Morgan Chase & Co, Research Division - Research Analyst

No, I wasn't suggesting it was a negative. I was understanding and what we should expect, I think, is the key to it. I mean, yes, it was the right outcome. It then stopped. We saw sort of a cliff on the other side, which is...

Michael J. Farrell - ResMed Inc. - CEO & Director

Yes. Exactly, but I mean, what I would add to that is, I would love to do that in the other 140 countries we're in. And if that's volatility where we accelerate and then transform care in a country and then we slow down a little, what would have been nice, though, to your point, is a slow and steady approach.

So for instance, in Germany, the next, actually slightly larger business for us in Europe, it would be lovely to go state-by-state. Let's do North Rhine-Westphalia, then let's do Bavaria and do it in a programs like. Now but you're influencing governments and you're influencing stuff. If they go like the French government and it's all from Paris and driven, we'll be there to help the government transform the health care. But -- no, I think that's the type of volatility that I'd love to have versus not.

David A. Low - JP Morgan Chase & Co, Research Division - Research Analyst

Yes. And I think that's the core of the question. Should we expect more opportunity from European countries going down this path, and it seems no set time frame.

Michael J. Farrell - ResMed Inc. - CEO & Director

No set time frame. But between here and 2025, I'd be very surprised if you didn't see some other countries adopt digital health in medtech, in particularly in the field of respiratory medicine and sleep apnea where we now have 3 case studies, the U.S., France and Japan, where this has lowered costs and improved outcomes. And so it helps the government and it also helps their citizens to have better sleep, better breathing and lower costs.



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David A. Low - JP Morgan Chase & Co, Research Division - Research Analyst

Great. Any questions from the room? No. Mick, one of the questions I get quite regularly, and I'm sure you do as well, is to talk about the competitive environment, particularly with Fisher & Paykel having launched a new mask recently. Perhaps if I could get you to talk to what you're seeing on the competition front, product development, and frankly, we'd like to know when your new device is coming as well? I believe that's an open question.

Michael J. Farrell - ResMed Inc. - CEO & Director

Well, I'll answer the last one first, which is we don't talk about details of our pipeline. Look, we have -- there's really 2 major players in the field of sleep apnea devices and respiratory medical devices in general. And both of us are working on smaller quad and more comfortable devices, and connectivity is the key area of competition, digital health. I think we have different strategies. ResMed is focused in outside-the-hospital health care, and our primary competitor in that field is focused on in-hospital to home. And those are different strategies, but they're both playing out.

I actually think this field for many opportunities to help our customers, which is the hospitals, the insurance systems as well as the patients, improve care. But it's a game that we've enjoyed these last 5 years. This field of digital health, smaller quad and more comfortable devices. And so the 2 of us are highly competitive in that space.

And as you said, there are 3-plus players in the field of the patient interface side, which is both the sleep apnea and Respiratory Care side of our businesses. Yes, I mean, new masks will come out from us and our competition every few quarters. What you've got to make sure, though, is that it achieves something better than it did before. And one thing that we've transformed recently is how we look at those segments of customers, end users, and people who want freedom during their sleep. The freedom to turn left, right, prone, you don't know it. But last night, hopefully, you slept for 7 hours, you probably had about 24 different positions. And if you had a mask that was providing lightly pressurized humidified air that was stenting your airway open, you'd wanted to remain with you on all 24 of those positions. And so creating a new category of masks that we call the freedom category, where the tube comes from the back of the head, and we've dealt with the potential of conducted noise impacting on sleep, so the air is actually going through your head gate and then out of the top. It helps people who sleep prone, which is face down, left, right. And so it's a whole new category of masks that ResMed is now leading in that category with our N30i and P30i. And actually, in some countries, we've now sort of done a controlled launch of our F30i, a brand-new mask in that space.

And so what I love about that is new masks come out every year or 2. But if it finds another segment of care. I was bragging about our 87% adherence, I'll turn that around. Thirteen percent of people don't get adherent to this therapy that is life changing and literally saves your life, as I showed in the Sleep Heart Health Study. So why aren't we getting those group? Well, maybe the freedom category allows us to get another couple of percent of those patients on care. But now we're not looking back at our competitors on what they're doing. We're looking forward and saying, how do we manage 8% of our R&D with all these exciting ideas to make sure that the right categories get added.

David A. Low - JP Morgan Chase & Co, Research Division - Research Analyst

Great. Maybe we should then switch tacks a little bit and move on to the Software as a Service business. And I think, frankly, that's still a business that investors, analysts are getting their head around what we should expect. Any milestones that you'd point us to for in 2020 or beyond for Software as a Service, broadly, MatrixCare in particular?

Michael J. Farrell - ResMed Inc. - CEO & Director

Do you want to?



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Robert A. Douglas - ResMed Inc. - President & COO

Well, I mean, we're very closely watching the growth of those businesses, but still really early days in MatrixCare, how that's going on, and we're really pleased with how both of those -- the MatrixCare and the Brightree business is going. There's some very long-term strategic milestones that we probably couldn't really communicate in terms of some of the types of things in terms of patient transitions and getting more integration across that system. Other than that, there's a very strong execution to the milestones that we've really just got to execute in those businesses. I don't know, if Raj, if you want to. Why him, all of a sudden? How it would work?

Michael J. Farrell - ResMed Inc. - CEO & Director

I mean, what I'll say rather than have Raj come up here and lean over is that I think 3.5 years ago when we bought Brightree, our market cap at that time was \$8 billion, and we invested \$800 million in Brightree, right. So it was 10% of our farm that we were betting on this new crop, if you like, of taking the idea that ResMed was very good at digital health technology as a cost center if you like internally to drive adherence for our sleep apnea therapy devices and lower cost for our customers, but we weren't charging patients. myAir is free for a patient. They go online, they got their device, they get their data for free, which I actually think is the right thing. They paid their health insurance, and they got all the way through the system.

But when we bought Brightree, which is a pay per user per month type of approach with our home medical equipment companies, I think there was a lot of skepticism from sell side as well as the buy side on whether ResMed as a medtech company could truly be a software company as well.

And I actually think that a lot of people on the sell side and buy side is saying, well, we always knew that Brightree would work. We're now worried about MatrixCare and can ResMed manage this part of the software? Three and a half years on with Brightree, we bought it for \$800 million. Could we sell it for what's 10% of our current market cap? Could we sell it for \$2 billion now? Probably. Would we want to? Absolutely not because it's worth more than that to us because of how we're integrating our care for those home medical equipment company, customers and to their customer and our ultimate customer, the patient and how we're improving efficiency, lowering costs and improving outcomes for the patient.

So MatrixCare, as Rob said, it's early days. We're only 12, 15 months in since that acquisition. But do I think skilled nursing facilities have a better chance for better Software as a Service solutions because it's part of the ResMed now ecosystem? Absolutely. Raj's team manage Amazon Web Services, Azure, cybersecurity, interoperability and privacy across now a whole portfolio. Thirteen percent of ResMed's global revenue is coming through this now. And so the skills and capabilities that we bring to play. But as I said in the prepared remarks, we are absolutely becoming the Cerner or the Epic for outside-the-hospital health care.

Now we've got to achieve that, right? Those guys have been in business for decades in that field. We're now 3 years into HME, 1 year into skilled nursing facility and home health and hospice. But I think we'll be here at this meeting in 2025, talking about how we're not only leading in the 7 verticals of outside-the-hospital care that we're in right now, but maybe, we've consolidated some of those verticals and brought some efficiency and brought some capabilities to outside-the-hospital health care that wasn't there before.

Health care systems are broken with this whole acute care come in, go to a hospital and go out phase. And then until you transform outside-the-hospital health care and make it seamless, make it frictionless and lower those costs, we're not going to be able to achieve what we need to do, which is take care of people in the lowest security, highest care setting. So it's a fundamental trend that should happen in the health care system. I just think ResMed will be a catalyst for driving that. And I hope that the skepticism goes down, but you know the best way to kill skepticism, keep performing.

David A. Low - JP Morgan Chase & Co, Research Division - Research Analyst

Sure. We've got a question.



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Unidentified Analyst

I'm curious, you mentioned Cerner in your prepared remarks and maybe you just now used Cerner and Epic as -- in an analogy. I'm curious how that you see the SaaS business interacting, engaging with providers, is that through electronic medical record interface, is that through an extension of products?

Michael J. Farrell - ResMed Inc. - CEO & Director

So this one, I will get Raj until.

David A. Low - JP Morgan Chase & Co, Research Division - Research Analyst

Let me try to summarize the question.

Michael J. Farrell - ResMed Inc. - CEO & Director

Oh, okay, can you summarize the question first, yes.

Raj Sodhi - ResMed Inc. - President of Software as a Service Business (SaaS)

I think the question was around how we are going to help providers interface with the health system? So you've got -- thanks, you've got 2 networks. You've got the in-hospital providers and then the out-of-hospital providers. And so how does the hospital discharge and understand which provider has the right capabilities. So for example, there's 35 million discharges from hospital in the U.S. today and only probably 20% land with home care providers, such as a home health agency. But the balance of those are landing at home with a need for DME potentially. And so there's no coordination of that, but sometimes a DME doesn't do hospital beds or doesn't do bed metal, but might do sleep and respiratory care.

And so there's all this paperwork and shuffling and the patient is waiting. So our goal is to interface with a Cerner like entity, allow for the hospital provider to look at the network and then discharge appropriately. But then you have a coordination of home health that needs to be scheduled so that the DME supplies are there along with the home health nurse landing on the doorstep of the patient. And meanwhile, the patients in a higher cost setting waiting in hospital be discharged. We think we have the right to coordinate the network of providers and then partnering with someone like Cerner is important. So in terms of the previous question around milestones, partnerships like that, activating them, making the transitions of care real between the post-acute, but also from acute to post-acute, those are real milestones, managing patient flow effectively will activate both our provider network, but also drive demand for our software.

Michael J. Farrell - ResMed Inc. - CEO & Director

And we're acute medical in this. I've mentioned Cerner just because we have that partnership in home health and hospice. We work with Epic. Judy and her team, and we have APIs, and we link into Epic Health. And we also work with Allscripts, Paul Black and his team. So we are -- our goal is to be that for outside hospital care, which means by definition, interoperability with all types of hospital care systems.

Robert A. Douglas - ResMed Inc. - President & COO

Does that answer your question? Great.

David A. Low - JP Morgan Chase & Co, Research Division - Research Analyst

That's time. Thank you very much, everyone.



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