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RMD.N - Q4 2025 Resmed Inc Earnings Call

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## OVERVIEW:

Company Summary

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

**Brett Sandercock** *Resmed Inc - Chief Financial Officer*

## CONFERENCE CALL PARTICIPANTS

**Craig Wong-Pan** *RBC Capital Markets Inc - Equity Analyst*

**Dan Hurren** *MST Marquee - Analyst*

**Davin Thillainathan** *Goldman Sachs - Analyst*

**Saul Hadassin** *Barrenjoey Markets Pty Ltd - Analyst*

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**David Bailey** *Morgan Stanley - Analyst*

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**Matthew Taylor** *Jefferies LLC - Equity Analyst*

## PRESENTATION

### Operator

Hello and welcome to the Q4 fiscal year 2025 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. Later we'll conduct a question and answer session.

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

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

Thanks, Kevin. I want to welcome our listeners to Resmed's fourth quarter fiscal year 2025 earnings call. We are live webcasting this call from Sydney, 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.

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

Thank you, Salli, and good morning from a wintery cold and rainy Sydney, Australia. Good afternoon to those in the US, and good evening to those in Europe and beyond, and welcome to Resmed's fourth quarter fiscal 2025 earnings call.

I'm pleased to report that Resmed delivered another very strong quarter, closing out fiscal year 2025 with excellent results. In our fourth quarter, we achieved 10% year-over-year reported revenue growth and 230 basis points of year-over-year gross margin expansion.

We continued our disciplined approach to investments in both research and development as well as SG&A, and we delivered another quarter of very strong free cash flow.

In addition to the world -- to being the world's leading sleep health and medical devices company, Resmed continues to build a global digital health ecosystem, encompassing sleep health, breathing health and health care delivery in the home.

We continue to see robust demand for our products and are now serving more than 154 million lives through our hardware and software platforms as well as our technology solutions. We are well on our way to achieving our Resmed 2030 goal of improving over 500 million people's lives by 2030.

I want to take this opportunity to thank the more than 10,000 Resmedians serving patients and customers in more than 140 countries worldwide for all that they do to serve those customers today and every day. Last quarter, I spoke to three key themes: first, that Resmed generates robust free cash flow and has a very strong balance sheet.

Second, we're committed to operational excellence as well as driving ongoing operating leverage. And third, that Resmed is a compelling investment opportunity. We have a strong study ship that can go through the waves and especially amidst the global macro uncertainty that we're seeing around tariffs and trades, and so on, Resmed has a very smooth path.

These themes remain highly relevant here as we discuss our fourth quarter and our fourth quarter results illustrate them well. So let me walk through the first of those themes. First, our fiscal year 2025 free cash flow was \$1.7 billion, which provides Resmed with significant flexibility to both invest in our business and return capital to our shareholders.

On the inorganic growth strategy front, we are focused on finding tuck-in size acquisitions that will help us accelerate towards our Resmed 2030 strategy. Recent examples include Somnoware, which is software for sleep physicians and pulmonary physicians.

Ectosense, which has their product, the NightOwl, which is basically a wearable fingertip size sleep home sleep apnea test. And just last quarter, we completed the acquisition of VirtuOx. These businesses will help patients move through the sleep care funnel more efficiently.

VirtuOx reduces diagnostic delays. It accelerates the rate of people moving from symptom recognition to home sleep apnea testing, and it keeps more patients on the path to treatment. VirtuOx will continue to operate independently under its own brand, and there are no changes that we plan to how providers and physicians will interact with either VirtuOx or Resmed.

In the US healthcare system, physician prescriptions, payer requirements and the need for personalized setup and support make home medical equipment or HME providers, our essential partners in ensuring patients receive and stay on effective therapy.

And sleep labs and home sleep apnea testing run from sleep labs is also a huge part of the infrastructure that we work with all day and every day. You will see us continue to selectively invest in our what we call digital sleep health concierge capabilities, including screening protocols, clinical tools, seamless workflows and cloud connected care pathways.

We will be looking to expand the diagnostic funnel to keep up with new patient flow coming from three sources. One, and most importantly, our own Resmed driven demand generation efforts that I'll talk about later.

Two, the greater awareness of sleep apnea that has been generated by the promotion of GLP-1 or GLP-1 medications, particularly to the specific primary care physician groups that they target and we can target as well with education.

And three, the accelerating momentum in consumer wearables that are capable of sleep health monitoring as well as some with specific sleep apnea detection capabilities. Resmed remains laser-focused on helping the more than 2.3 billion people worldwide that suffer from sleep apnea, insomnia or respiratory insufficiency due to COPD or neuromuscular disease, and all those that need care delivered in the home.

We've also returned significant capital to shareholders in fiscal year 2025 through a combination of dividends and share repurchases that have totaled more than \$610 million for the year. I'm pleased to announce that Resmed's Board of Directors, my fellow Board of Directors has authorized an increase in the quarterly dividend for fiscal year 2026.

Additionally, we are significantly increasing our targeted share repurchase activity for fiscal year 2026. Brett will discuss both these actions in more detail in his remarks in a few minutes, and they represent the strength of our business.

Resmed's very strong free cash flow affords us the ability to invest in the business through R&D and SG&A expenses, but also to pursue our share buybacks and raise our dividend, as I just mentioned. But in addition to that, to also have significant funds available for strategic technology and I would call pathway -- seamless pathway type tuck-in acquisitions.

My second key message relates to our commitment to operational excellence. Resmed has demonstrated a very strong track record of improving and driving gross margin expansion and a pipeline of opportunities to deliver further operating leverage across our business.

In the fourth quarter, we achieved 230 basis points of gross margin expansion year-over-year and well over 100 basis points sequentially quarter-over-quarter. And we have more runway left. We'll continue the execution on these opportunities over the course of our fiscal year 2026 that we're just firing up on here, and I'll update you here on this call every quarter as we continue to deliver these results.

We will also continue to evolve our global manufacturing footprint. We're approaching the official opening of our newest manufacturing location in Calabasas, California. This site will double the size of our current manufacturing footprint in the United States and is designed for us to scale up our US-made product volume over the coming years and leverage the amazing technology capabilities of folks in East L.A. in terms of aeronautical and automotive industries that we use in the field of motor technology and motor manufacturing.

During the fourth quarter, we delivered very strong net operating profit growth even with the continued investment in both R&D and SG&A. We see these growing investments in innovative R&D as well as SG&A investments that are focused on demand generation, demand capture and demand curation as critical components to Resmed's long-term growth.

Resmed is an innovation machine with R&D focused on market-leading masks, cloud connected devices and digital sleep health platforms, along with growing investments in AI, GenAI technology that's across the business.

We make the smallest, the quietest, the most comfortable, the most connected and the most intelligent therapy solutions for sleep apnea and now insomnia and respiratory insufficiency as well as having the market-leading software for healthcare and broader care delivered right where people live.

We continue to roll out our amazing AirSense 11 platform to more and more countries in our global markets. Over the course of fiscal year 2026, you'll see us do the same for our latest patient interface technologies, including the AirTouch N30i, which has an amazing fabric enhanced capability that can be put on to LSR manufacturing in a very unique way by our manufacturing and technology teams.

And also the AirFit F40, which is a minimally contact oral nasal mask among many other products in our mask portfolio. We also have a robust road map for incorporating AI and GenAI technology into our digital products.

In June, we integrated our digital assistant that we call Dawn as in the sunrises into myAir in our Australia business to provide personalized 24/7 support to our local users. We plan to have a wider rollout of Dawn on the myAir platform, which is our app that sits on smartphones throughout fiscal year 2026 as we get regulatory approvals and move that technology to the various countries that we operate worldwide. Watch this space on that front.

Additionally, within the myAir app, our smart coaching feature uses machine learning combined with behavioral science-based interventions to enhance personalized PAP therapy outcomes. And finally, our resupply attrition predictor helps Brightree customers in the US to better manage patients who are at risk of dropping off or quitting positive airway pressure therapy.

This technology enables our HME partners to create personal touch points with patients and to ultimately increase long-term adherence of those patients. Greater long-term adherence leads to better patient outcomes, happier physicians, lower total cost of care for payers and better resupply volumes that are beneficial for HME providers and obviously, for Resmed.

As our trained AI technologies improve with more and more data, we foresee Resmed solutions will transform into proactive, personalized healthcare companions. Resmed is extremely well positioned to turn our over 23 billion nights of respiratory medical data as well as our three plus decades of sleep science and sleep medicine knowledge into personalized treatments and personalized insights that integrate seamlessly with wearable data, health data and virtual care.

In addition to our products, we see multiple applications for AI and GenAI in our business processes. In our R&D team, the use of agents in verification and validation can reduce development time to a fraction of our prior processes. We're using AI to write test scripts to diagnose test failures, to write reports as well as in verification of our product library.

We are also rearchitecting development processes. As one example, we've been able to use AI to develop a human head-shaped variance model to represent a broad range of ethnic groups to run virtual fitting studies.

This will allow us to replace what was previously our multiple in-person mask fitting studies that would likely be limited in sample size to maybe 100 people and replace it with a digitized model that can simulate many thousands of people using less time, less planning and less investment dollars.

This type of doing more with less resources approach is only accelerating as we expand and broaden our use of AI across the business. Our SG&A investments have also continued to show a very strong ROI. Earlier this year, we announced a comprehensive Resmed brand evolution strategy and several targeted direct-to-consumer marketing campaigns to build brand awareness and really importantly, to drive undiagnosed patients to seek care.

Results to date have been very promising as we are in the early phases of this. But if this is a marathon, our first mile, or here in Australia, our first kilometer was a great lap time. We launched a multi-market campaign targeting sleep health awareness primarily in countries where we have significant direct market channels, including Germany, Australia, New Zealand, Korea and India.

To date, we have seen growing sell-through and delivered a strong return on our advertising spend, or ROAS, as the martech people call it, that is many multiples of the investment we've made. We've also had an omnichannel US-based campaign that's been focused on the perception of CPAP therapy.

This effort ran in metropolitan areas in the US, very specific ones for several months earlier this year and touched both consumers as well as healthcare providers. So I think physicians, HMEs, primary care physicians and beyond.

On the physician education front, specifically, we've expanded our offering of continuing medical education or as they call CME programs to teach physicians for the benefits of CPAP, APAP and bilevel therapy as the gold standard, the frontline treatment for any patient that has been diagnosed positively with sleep apnea in accordance with sleep medicine guidelines from the AASM and beyond.

We're seeing an increased participation from primary care physicians. We had 20,000 unique primary care physician participants who have taken our courses and those CME courses, and over 32,000 courses taken. So people are taking these multiple times. We love to see the repeat CME users. That means the PCPs, the primary care physicians, the GPs, they want to get even deeper into the field of sleep health.

One of the most encouraging statistics I saw from this work is that 75% of the CME course graduates indicate in a survey that we do post the training that they specifically intend to change the clinical practices that they have in their practice related to sleep health based on what they've learned from our CME programs.

This is an incredible result, and we will watch this space for the level of increased prescriptions and increased flow of patients into our home sleep apnea testing and sleep lab funnel and ultimately to prescriptions.

For those who have been watching our brand enhanced investments closely, you will know that Resmed was recently named the official partner of the Qatar Airways British & Irish Lions Tour to Australia and beyond.

It started actually in Dublin, Ireland and went around the world. Where we all have businesses in all these countries and many of them omnichannel businesses. Resmed launched what we call the Tackle Your Sleep campaign. This is a comprehensive digital and content focused campaign featuring some of the world's best athletes in the field of Rugby and coaches in the field of Rugby.

This campaign aims to raise awareness about the importance of quality sleep as the third pillar of health, along with cardiovascular exercise and good diet and nutrition. We will track brand awareness, Net Promoter Scores as well as consumer and patient flow statistics to measure the ROI and the return on advertising spend or ROAS.

Our clear goal of these brand awareness and demand generation campaigns is to help the 2.3 billion people worldwide who need our solutions to know the Resmed brand and more specifically, to know where, how and when to find a path to screening, diagnosis and ultimately to being on therapy for life, to save their job, to save their marriage, to save their life.

Watch this space as we measure the ROI that we've had with these, I would say, relatively modest global marketing efforts, and we will pursue ongoing targeted additional phases of these initiatives in fiscal year 2026, with every investment based upon strong ROI and proven ROI targets, coupled with disciplined spend of our valuable SG&A resources.

We are accelerating the next step of our Resmed 2030 operating model by integrating our revenue and product functions of our residential care software or RCS and sometimes called our SaaS or Software-as-a-Service business, into the broader Resmed organization.

This builds on earlier efforts that integrated our RCS, finance, human resources, cybersecurity and marketing functions and many more over the last periods. By aligning our people, our workflows, our platforms and our data across the business, we can continue to reduce friction, improve therapy adherence and deliver more personalized and more digital care.

In line with this Resmed 2030 operating model evolution, I would like to announce that Bobby Ghoshal, who is the current Chief Commercial Officer for our RCS business, that Bobby will be leaving Resmed today, actually, here, we're in the August 1 here in Sydney, tomorrow for the US, and he's leaving Resmed to become President and Chief Operating Officer of a software business that is not competitive to Resmed and it's in the field of software for urgent care.

I would like to take this opportunity to thank Bobby for his amazing 13 years-plus of dedication and service to Resmed. I personally hired Bobby from a company called ON Semiconductor to join the Resmed Americas commercial team that I was running at the time in 2012.

Bobby played a key role in our digital evolution was one of the first Resmedians to jump into our new RCS business straight after our Brightree acquisition in 2016. We put him as Chief Operating Officer there, almost out the gate.

And in the years since then, Bobby has helped scale our residential care software business across home medical equipment as well as home health, home nursing and beyond. He's helped us integrate strategic acquisitions as well as driving innovation. So we thank Bobby for his many contributions, this decade plus. And I personally wish Bobby the best of luck in the next phase of his career journey and his life journey.

In terms of next steps of here at Resmed of our residential care software business leadership, our strong and capable residential care software leaders, Joachim, Arne on MediFox, Tim on the MatrixCare brand and Gregg across Brightree, they will now all report directly to Mike Fliss, our Global Chief Revenue Officer.

This is a fulfillment of our 2030 operating model that will accelerate our journey to meet and beat our Resmed 2030 strategy goals. So one key message before I hand over to Brett for his remarks is this quarter after quarter, Resmed has demonstrated -- it is able to consistently both deliver financially and operationally.

We're a compelling investment opportunity amidst what I would call global macro uncertainty. We are delivering products. We're delivering solutions that customers love, and I use customers, meaning patients, physicians, providers, payers, and they vote with their wallets.

They buy our stuff more than our competitors. And we've been closely monitoring the global trade environment and the evolving regulatory landscape in both Washington, Brussels and Beijing. And as I noted last quarter, because our products are used to treat patients with chronic respiratory disabilities, they've been subject to global tariff relief for decades, and that has been ongoing and continuing.

This affords Resmed the opportunity to remain fully focused on our business and helping the more than 2.3 billion people worldwide that need our help for their sleep apnea or insomnia and the respiratory and sufficiency as well as all those needing our market-leading software for healthcare delivered in the phone and then in the home.

Let me make some brief comments about the competitive bidding program that CMS recently stated that it plans to resume. I simply cannot get too specific as CMS has not yet announced any of the details as to what product categories included nor the time frame that they plan for the next round.

But during this comment period, I'll remind you of this, Resmed has a long-standing track record of engaging constructively with the US government policymakers and industry participants over more than a decade in this area. I'm the incoming Chairman of AdvaMed, which is our US based, but also global advocacy group, and I plan to work with AdvaMed, and work with all of our sort of industry groups, to help give the right comments to the US government as we go through this process.

Again, as always, Resmed remains committed to advocating for policies that protect most importantly, patient access to care and policies that promote fair and sustainable reimbursement for our HME providers. We'll continue to support our HME customers and the millions of Medicare beneficiaries who rely on Resmed for access to market-leading, high-quality sleep and respiratory care at home.

So I'll close with this. Resmed is highly resilient as a company and as a culture. We've successfully navigated the COVID crisis and immediately one of our competitors abrupt and multiyear exit from the device market in the US, and then the global supply chain crisis, including specifically the semiconductor supply issues that we got through well.

We have built the world's largest respiratory medical device manufacturing facility, and we have an incredibly robust global supply chain. We have driven sustained strong top line growth, and we're highly focused on operational execution, as you saw in our gross margin expansion that we delivered this quarter and throughout fiscal year 2025, and we're not done.

We have maintained our very strong balance sheet, and that gives us ballast in the boat and flexibility for the future. We've established a leading market position in over 140 countries worldwide in a very underpenetrated market that still has a long runway of growth ahead.

All these factors give us confidence in our ability to deliver for all of our customers, for consumers, for patients, for physicians, for providers, for payers and for our communities. And of course, for you, our shareholders.

So as we launch here into fiscal year 2026, we're continuing to execute on our 2030 strategy, investing in innovation, scaling our impact, and we're laser focused on delivering another year of strong results. So with that, I'll hand the call for the first time, just right next to me in the room, over to Brett for a deeper dive into our financials, and then we'll open the floor to your questions. Brett, over to you.

**Brett Sandercock** - Resmed Inc - Chief Financial Officer

Great. Thanks, Mick. In my remarks today, I will provide an overview of our results for the fourth quarter of fiscal year 2025, unless noted, all comparisons are to the prior year quarter and in constant currency terms, where applicable.

We had strong financial performance in Q4. Group revenue for the June quarter was \$1.35 billion, a 10% headline increase and 9% 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 \$15 million during the June 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 9%.

Sales in Europe, Asia and other regions also increased by 9% on a constant currency basis. Globally, on a constant currency basis, device sales increased by 8%, while masks and other sales increased by 11%. Breaking it down by regional areas, device sales in the US, Canada and Latin America increased by 7%. Mask and other sales increased by 12%, reflecting continued growth in resupply and new patient setups as well as incremental revenue from two months of owning VirtuOx.

In Europe, Asia and other regions, device sales increased by 10% on a constant currency basis, and masks and other sales increased by 7% on a constant currency basis. Residential care software revenue increased by 9% on a constant currency basis in the June quarter, underpinned by robust performance from our MediFox Dan and HME verticals. We will continue to report residential care software as a separate segment in our financial results.

During the rest of my prepared remarks today, I will be referring to non-GAAP numbers. We have provided a full reconciliation of the non-GAAP to GAAP numbers in our fourth quarter earnings press release. Gross margin of 61.4% in the June quarter increased by 230 basis points year-over-year and by 150 basis points sequentially.

These increases were primarily driven by procurement, manufacturing and logistics efficiencies as well as favorable foreign currency movements. Indeed, currency movements accounted for almost half the sequential improvement in gross margin.

Changes in average selling prices had a minimal impact on our gross margin, both on a year-over-year and on a sequential basis. We've made considerable progress on our gross margin expansion objectives and continue to work diligently on our gross margin initiatives pipeline. We remain focused on making sustained long-term gross margin improvements. Looking forward and subject to currency movements, we expect gross margin will be in the range of 61% to 63% in fiscal year 2026.

Moving on to operating expenses. SG&A expenses for the fourth quarter increased by 9% on a headline basis and by 8% on a constant currency basis. The increase was primarily due to increases in employee-related expenses and increases in marketing expenses, including investments associated with our recent global brand launch, along with targeted demand generation activities.

SG&A expenses as a percentage of revenue improved to 19.7% compared to 19.8% in the prior year period. Looking forward and subject to currency movements, we expect SG&A expenses as a percentage of revenue to be in the range of 19% to 20% in fiscal year 2026.

The R&D expenses for the quarter increased by 7%, both on a headline and constant currency basis. The increase was predominantly attributable to increases in employee-related expenses. R&D expenses as a percentage of revenue was 6.4% compared to 6.6% in the prior year period. Looking forward and subject to currency movements, we expect R&D expenses as a percentage of revenue will be in the range of 6% to 7% in fiscal year 2026.



Operating profit for the quarter increased by 19%, underpinned by revenue growth and gross margin expansion. Our operating margin improved to 35% of revenue compared to 33% in the prior year period. Our net interest income for the quarter was \$6 million.

Our effective tax rate for the June quarter was 21.9% compared to 18.7% in the prior year quarter. The increase in our effective tax rate was due to a low comparable prior period tax rate and current year changes in our global mix of earnings.

Our effective tax rate for the full year was 19.9% compared to 20% for the prior fiscal year. We estimate our effective tax rate for fiscal year 2026 will be in the range of 21% to 23%, with the uptick primarily due to the impact of tax legislation taking effect for certain jurisdictions beginning in fiscal year 2026.

Our GAAP effective tax rate for the June quarter was 17.1% as we recorded a one-time tax benefit of \$21 million relating to the cessation of certain business activities. We have turned this tax benefit as a non-GAAP item in our fourth quarter financial results.

Our net income for the June quarter increased by 22%, and non-GAAP diluted earnings per share increased by 23%. Movements in foreign exchange rates had a positive impact on earnings per share of approximately \$0.05 in Q4 FY25.

Cash flow from operations for the quarter was \$539 million, reflecting strong operating results and disciplined working capital management. Capital expenditure for the quarter was \$31 million, and depreciation and amortization for the quarter totaled \$64 million.

We ended the fourth quarter with a cash balance of \$1.2 billion. At June 30, we had \$668 million in gross debt and \$541 million in net cash. We also 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. We are well positioned to weather the ongoing global uncertainty and geopolitical challenges.

As Mick mentioned, we completed the acquisition of VirtuOx during the quarter for consideration of \$140 million. VirtuOx has an annual revenue run rate of approximately \$45 million. We have included VirtuOx in our financial results from the first of May.

Overall, the results are not material to the group and were neutral to non-GAAP earnings per share for the June quarter. Today, our Board of Directors declared a quarterly dividend of \$0.60 per share, representing an increase of 13% over our previous quarterly dividend and reflecting the Board's confidence in our operating performance.

During the quarter, we purchased approximately 419,000 shares under our previously authorized share buyback program for consideration of \$100 million. We plan to further increase our ongoing share buyback program and purchase share to the value of approximately \$150 million per quarter, commencing in Q1 of fiscal year 2026.

At the current share price, this would result in approximately 1.5% of our outstanding shares being repurchased during 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 share buyback program. And with that, I will hand the call back to Salli.

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

Thank you, Brett. We'll now begin the question-and-answer session. I'll hand the call over to our operator, Kevin, to provide instructions for that session.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Craig Wong-Pan, RBC.

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### Craig Wong-Pan - RBC Capital Markets Inc - Equity Analyst

Thanks. Just wanted to understand the Rest of World devices growth, kind of really good growth there. I just wanted to understand the dynamics you're seeing. And if there's any kind of large tender that contributed to that Rest of World devices revenues?

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

Yeah, thanks for the question. And yeah, look, very good growth in our Europe, Asia and Rest of World devices at 10%. Yeah, multiple factors can come into that. We have some markets where there are buyers that move ahead or behind, like in Japan, where it's more of a fleet approach.

We have some areas in the world where we have tenders that may come in and out. But roughly, what we think is market growth for Europe, Asia and Rest of World for devices in the mid-single digits, so clearly, there's some fluctuations there. We're not saying that there's demand generation activities have had that 300%, 400%, 500% improvement right.

We're just starting our approach there. It's more in the tens of basis points of improvement that we're seeing from these early experiments. And so no change to actual market growth, but some pretty strong growth from Resmed in the quarter there.

But we think going forward, it's sort of more in the mid-single digits for devices in Europe, Asia, Rest of the World, actually the same for our devices in the US. Any other color, Brett, you want to provide on a country-by-country basis for Europe, Asia, Rest of World?

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### Brett Sandercock - Resmed Inc - Chief Financial Officer

No, I mean international markets, we had a good quarter, and there's good growth in Europe, some improved growth in China as well, actually. So some really strong results through numerous markets, and that's really contributed to that strong device performance.

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

Thanks for the question.

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### Operator

Dan Hurren, MST Marquee.

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### Dan Hurren - MST Marquee - Analyst

Yes, definitely. MST Marquee. Yeah, look, thanks, everyone. Look, really good. Looking at gross margin and even better guidance. Brett, can you just talk through the elements of that gross margin guidance? And maybe touch on the FX, which is probably going to get to see a little bit coming into '26?

**Brett Sandercock** - Resmed Inc - Chief Financial Officer

Yeah, sure, Dan. The -- yeah, I mean really pleased with the gross margin and really the team works really hard on gross margin improvement initiatives. And really seeing that manifest in the gross margin. Clearly, we had some benefit from foreign currency, particularly the euro during the quarter.

So if you look at that sequentially, basically almost half that sequential improvement was FX, that means that just over half was actually gains we made through efficiencies. Now some of the large components around that were component cost improvements that we've been making.

We've been making those progressively and they're starting to come through. We've got -- freight was also a contributor because we've -- in terms of the sea freight to airfreight ratio now, that is actually back to pre-COVID levels.

So the logistics team has done a great job on that. And that -- you're seeing that come through in the gross margin expansion as well. And then we continue with things like the AS10, to AS11 platform transition and so on, which has been ongoing, but is also a little bit of a tailwind for us. There probably the major impacts on that gross margin expansion for this year, both year-on-year and sequential actually.

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

And I'll just pile on there. I think the -- I had a one-on-one with our Chief Supply Chain Officer, just hitting his one year anniversary with Resmed. I think we've gone from Resmed having a good approach, sort of almost an art type approach to a science-based approach and a lot of learning over this last year.

And Brett ran our operations for over six months, and that strength between our financial teams and our supply chain teams is stronger than it's ever been. And so that gives us the confidence with that guidance to say actually, not only did we do really well in gross margin expansion in 2025.

But as we look forward to '26, '27, '28 probably not at those levels because they're extraordinary in recovery from a supply chain crisis, but we will be able to have sort of an ongoing pipeline of innovation that we can set up and tune up and turn on as we go towards our 2030 goal.

And so it's not one and done. There was some good reset and some catch-up. But actually, there's some sustainable improvements that allows us to give that guidance of 61 percent to 63 that you saw there, Dan. Thanks for the question.

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**Dan Hurren** - MST Marquee - Analyst

Thanks.

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**Operator**

Davin Thillainathan, Goldman Sachs.

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**Davin Thillainathan** - Goldman Sachs - Analyst

Oh, hi, Mick and team. Thanks for the presentation. I guess I just wanted to discuss VirtuOx. Thank you for the disclosures on the materiality of revenues. But I guess it's more interested -- I'm more interested to understand the road map for this business towards your acquisition. What are the areas of investment that Resmed will be making over the next 12 months? And also are the leading indicators that we can look at to assess those returns, please?

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

Yeah, all really good questions. Look, we're really excited about VirtuOx, but VirtuOx isn't an acquisition on its own. You've got to think about it as a portfolio. So we've -- if you look over the last 12, 18 months, you look at Ectosense and what we're doing with NightOwl, that fingertip-size wearable home sleep apnea test that's now FDA-cleared and available, I'll be at our US sales meeting, American Sales Meeting, ASM, in a couple of weeks in San Diego and that will be fully launched to our teams and education and driving it out.

And I remember a decade a bit ago launching the apnea inhaler, which we thought was the smallest and most capable device and you had some cloud connectivity. This is taking it to the next level and sending out a challenge to say look, Resmed, we're the number one in therapeutics in 140 countries.

We don't need to be the number one in diagnostics in 140 countries. But if there isn't -- if there aren't companies or there is an ecosystem of people driving home sleep apnea testing, smooth software and scalable sleep apnea testing than Resmed as the global leader in this space has to step in. So we're doing that with that wearable home sleep apnea test from NightOwl.

Then you add on Somnoware, and Subath, the CEO of that, is now Head of our Innovation and Growth Group. So we kept some great talent and moved in the business, but we kept that greater operating opportunity. And as you look at our AirView software and our Somnoware software, watch this space as we start to bring those types of things together to create seamless and frictionless flow of patients through the funnel.

Then to your question, VirtuOx, that fits in at the next phase, which is, look, home sleep apnea testing is the scalable part. Our sleep labs are amazing partners but they're full, they are full in hospitals, coming back post COVID and aren't expanding their in-lab testing capabilities.

So we have to expand home sleep apnea testing, and we have to bring down those wait lists that went up very high during COVID and get that backlog down. And so we're doing that in the in-lab and we bought VirtuOx as the number one provider to drive home sleep apnea testing to show it can be scaled. And so watch this space as we invest in our marketing and capabilities.

Obviously, look, our VirtuOx teams and our core sleep health teams, separate sales teams. There can be partnerships where we see opportunities where wait lists are high and home sleep apnea testing can scale. And so we'll look for opportunities to say where is the best need. Where is the most need for home sleep apnea testing to scale. And so watch this space as we do that. And this is not a step change with some sudden huge uptake of patients through home sleep apnea testing.

But I can tell you, in the arms of a strategic versus private owners, I think home sleep apnea testing companies like VirtuOx will do better, and we're the only strategic investing in this, and I think it's the right thing to do.

As we talk to our HME partners, the message to them is this is fantastic because we're going to bring more and more patients to you. As we talk to our fleet plan partners, we say, hey, here's another tool that you can use for the patients who are big on the waiting list that you know a very high probability, obstructive sleep apnea, so that you can have the complex cases that might have central sleep apnea, complex sleep apnea, COPD or overlap syndrome, complicating cardiovascular disease or post stroke, do all of them in your lab, have the complex cases in your lab and let's free up that capacity for them and they end up on ST, STAs, an ASP-type therapy, which is good margin for Resmed and really good for the patient because they get the care they need and expand with home sleep apnea testing.

So our goal is really VirtuOx is part of a long-term play here. There's no simple win in this quarter. As Brett said, it wasn't material to our global results, but we did want to give you visibility on the revenue and the size of it, just because we don't want you to think it's bigger than it is or smaller than it is, but we are going to scale this.

And actually, I want the competition to scale up too -- I want a strong competitive diagnostics space there because it's really important that we help all across the 50 states that we operate with VirtuOx. And frankly, we can't have models like that in the 140 countries that we operate into. I spent a long time on that question because it's a complex one.

But watch this space, we'll keep giving you updates every quarter on not just VirtuOx, but that ecosystem of Ectosense, Somnoware, VirtuOx and what Resmed is doing to free up the funnel and have more and more of the 1 billion people with sleep apnea worldwide get their way through the funnel, and we'll talk about insomnia and respiratory sufficiency as we go, as we look for ways to improve those pipelines as well. Thanks for the question.

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**Operator**

Saul Hadassin, Barrenjoey.

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**Saul Hadassin** - *Barrenjoey Markets Pty Ltd - Analyst*

Yeah, good morning, Mick and Brett. Mick, just a question on US mask growth. Once again, low double digits seems to be ahead of what you described market growth at is high single digits on the last quarter. So just wondering if you can go into a bit of detail as to how much you think that is share gains versus just stronger growth in resupply overall at an industry level? Thank you.

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

Yeah, thanks, Saul. It's a really good question, and you nailed all the elements of it, right? I do think, as we look at that AirTouch N30i. I don't know if you've seen the physical product. Brett, Salli and I are doing the roadshow through Sydney, Melbourne and Singapore.

So for those investors that we see, I'm going to bring a sample of that with you because that type of idea of bringing fabric to the path that is the pure patient interface. We call that whole thing a patient interface, but the part that touches your nose, going from silicon rubber, which is the last 35 years of everyone in the space, including Resmed, the market leader, to now having fabric there.

I think that innovation is not only incredibly technically difficult to do at scale and manufacturing levels that we do in multi-cavity tools and the high-pressure temperature, liquid silicon rubber, but it's so impactful for the patient, and it's so comfortable for the patient.

And the patient then loves that and wants to have it in our cash markets. And then in our RT driven markets where home medical equipment respiratory therapists do set up, they see how comfortable it is many of them are patients as well and recommend it. So I think there is some share gains from the AirTouch N30i and the F40, which is in our full face category or our nasal mask category. Those are doing really well.

But look, it's a competitive space. There are competitors out there. So I think there's some element of that competitive share taking. But I think there's other elements. As you said, it's resupply and frequency around resupply and contact around resupply.

And getting better at Brightree, getting better at Resmed ReSupply, getting better at contacting consumers through myAir and beyond. So watch this space. I think you'll start to see us enhance our resupply approach. And yeah, I think the market growth rate is high single digits. We were ahead of it for the quarter.

(multiple speakers) Saul you're still on. I don't think our SG&A investments are great, Saul. But anyway, I'll finish up with the masks and so on growth in US, Canada, Latin America, very solid in the quarter and expect us to continue to drive those resupply programs in partnership with our HMEs, with partnership with our myAir platforms.

And I mean, if you look at Europe, Asia and Rest of the World, I think we can do better at resupply in some of those markets where we're leveraging our own technologies like myAir and beyond. So mixed bag on that front, but we're very happy with the performance in the US, Canada and Latin America. Thank you for the question, Saul.

**Operator**

Anthony Petrone, Mizuho.

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**Anthony Petrone** - Mizuho Securities USA LLC - Analyst

Thank you. Congrats on another strong quarter. I have two quick ones, I'll just throw them out. The first one, Mick, competitive bidding. The proposal is calling for maybe just a consolidation of the number of contract suppliers out there. That just seems like pretty good draconian proposal. Maybe just walk through that a little bit. If that does kind of stick in the final rule, like how rapidly do you think consolidation occurs in the DME space.

And then on the second question is a broader strategy question. Mick, you've sort of commented in the past that Resmed today is a one-stop shop for sleep apnea but certainly wants to continue to expand across the spectrum. So maybe talk a little bit about oral drugs. There was a favorable outcome there from Apnimed's Phase 3 study and just the latest thinking on hypoglossal nerve stimulation. Thanks.

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

Thanks, Anthony, and thanks for the multipart question. I'm still writing it down. And your line, it will remain live through the question so we can have a bit of a conversation just as a heads up. Yes. So competitive bidding, I'll start with that part.

Look, this isn't our first rodeo. I think this was announced when I was running marketing in 2005 and took over CEO in 2013 in the midst of around 2 -- 1 to A to B to C3. And our last round around 4 where we saw an uptick from our HME customers are actually bidding up against the proposal such that CMS just said, okay, let's go back to where it was and add inflation adjustments for these last four years.

And so we're watching it very closely. Yeah, look, the guidelines aren't clear yet, and they haven't defined everything. And so we're in a comment period. We're going to talk and we work with AA Home Care and AdvaMed and give our feedback to Washington.

I was there in Washington just last month in the CMS, with Dr. Oz and team and is also over a with HHS with the folks in RFK Jr's office there. And so they're listening. This administration is listening and taking feedback from industry.

And so we're going to give that feedback. And just make sure we protect patient care, protect HME's rights to be able to freely access and really to make sure beneficiaries of US Medicare have a chance to get access to great therapies like Resmed has. So it's all about the patient. We will be advocating for that.

Yeah, with regard to consolidation, we've seen a lot of consolidation in the last 10 years of competitive bidding going through, but it's not really driven by that. It's driven by efficiencies and capabilities. Resmed's job is to support all our customers, small mom and pops, medium-sized regionals and large regionals as well as the big nationals.

And with technologies like Brightree, you could be running a small regional as efficiently as some of these large nationals. So we want to support a whole ecosystem, sometimes the care are local is just as good or better. So all the customers are important to us.

And I think we've seen some really good, I would say, mature infrastructure investments by our HME providers and some mature approaches to this. So I think we're going to do very well through this competitive bidding environment. And as we read through the rules there, they seem mostly in line with the last round and some improvements we have suggestions we'll make specifically to Washington.

Two question about one stop shop for sleep apnea. Yeah, look, Resmed stands for respiratory medicine and residential medicine, it doesn't stand for just CPAP company. And we've had more than a decade of being the best provider of not just CPAP, APAP and bilevel which we've done for 36 years, but over a decade of providing mandibular repositioning devices, which is if CPAP, APAP and bilevel, the gold standard, which they are, I think Olympic medals, the silver goes to dental MRDs.

And so Resmed is the number one provider of 3D printed dental devices in Western Europe, Northern Europe and beyond and everywhere where there's a good economic model for the consumer to get access to dental care. That's where we participate.

For the bronze metal, right, for sort of third tier therapy, if you can't tolerate CPAP, APAP, bilevel, can't tolerate dental, which both of them are relatively non-invasive, relatively affordable and use natural things like air and water, very much in line with the sort of Make America Healthy Again and actually European sort of naturalist approaches and cost-effective approaches of any payer, then you might end up if you can't tolerate those on the third tier therapy.

And I think there's a range there. There's GLP-1s for pharmaceuticals. I think they've taken the wind out of the sales of Apnimed, frankly, because the GLP-1, not only half treats, I'll say half treats because it's about an AHI reduction of 50%, some of the apnea, it leaves a lot of residual and should be used in combination with gold standard and physicians know that.

But it does that and some diabetic improvements and cardiovascular and all those. And so I think it's more likely that they are Zepbound or that type of a drug would be used as that third tier versus an Apnimed, which only half treats the apnea.

But we'll watch this space. We're invested there. We're obviously on the Advisory Board. And yes, I want to keep -- the one-stop shop thing for me, Anthony, is about Resmed keeping a relationship with the person who suffocates. And if they are on CPAP, APAP, bilevel, we've got an intimate relationship. They're on dental. We've got an intimate relationship.

If they're on those third tier therapies, whether it's a drug or a hypoglossal nerve stim, I want to still have that relationship because, guess what, those drugs may not be inherent for life. That even an implant might not be something they want to keep turning on because of side effects or whatever.

I want to have a relationship, so I can bring them back, and get them a chance to get the gold standard because as Jean-Louis Pepin from Grenoble University in France says, he says, the best alternative to failing positive airway pressure therapy is positive airway pressure therapy again.

And so I want to keep that relationship. That's that. And I think I included the answer to your third question there on Apnimed in that last one. So thanks for the triple there, Anthony, and we'll talk to you soon.

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#### **Operator**

David Bailey, Morgan Stanley.

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#### **David Bailey - Morgan Stanley - Analyst**

Yeah, thanks. Morning, Mick and Brett. You touched it on the last question there, Mick, but just post the Zepbound label, interested in your observations around new patients coming into the system and then maybe any feedback you can provide around the physicians prescribing patents post that label, if they are starting to prescribe GLP-1s in conjunction with CPAP. Any observations on those two would be appreciated. Thank you.

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

Yeah, thanks, David, and very good question. I mean it allows me to talk to a bit broader on that sort of demand generation part of it, and we're watching very closely. We updated our numbers and so you'll see that in the book later. But it's really -- it's sort of well north of 10% increased rate.

I think it's now 11% increased rate of a patient with a GLP-1 prescription starting CPAP, APAP or bilevel versus those who don't have the code that they have had a prescription for GLP-1. So that's strong and just getting a little stronger of that.

I'm a motivated patient. I've come in for this new pharmaceutical capability, which has the cardiovascular promise, the diabetes promise, the half treating of sleep apnea promise in this, I don't know, call it the Kim Kardashian or Botox effect, right, this aesthetic in fact. And so they come into the primary care position wanting that the GP, wanting that.

But then when the PCP, when the GP sees, they have apnea, they're writing a prescription for CPAP, like it's happening because in the US, there's -- you'll get sued if you don't give gold standard therapy, if you don't offer the standard of care, but also there's the Hippocratic Oath and they know that this is completely reversible, very cost effective and 100% effective if used as directive.

And so that's why we're seeing that. I think that 11% start rate. And you look at one year and two year end, those are unchanged. They're north of 3% higher resupply rate for GLP-1 prescribed patient versus control for one year, and then north of 5% higher resupply rate at two, and those numbers are steady. So you can see those in the numbers we've got in our reported this quarter.

Look, we're not going to rely just upon Lilly who got the IFU for Zepbound. Well, that's our demand gen. We don't need to do any. Are we going to do what we said earlier, we're going to do these consumer direct approaches in particularly our omnichannel markets. But we're also going to do it in our primarily healthcare driven markets, healthcare insurance driven markets like the US, France and Germany because it's a combination of all the above.

But it will be a contributor to us. These patients are coming in. And you heard in my prep remarks, the focus on CME, that continuous medical education, that's huge to make sure that a primary care physician, and we're targeting ones that are high-volume GLP-1s that have prescribed them before and are likely to be where people go.

We're educating them about gold standard, silver and bronze for sleep apnea therapy, showing them CPAP, APAP and bilevel there and helping them set up home sleep apnea testing pathways. So very early days in demand gen from Resmed driven and pharma-driven and I would call consumer tech wearable driven. But we are starting to see some results in specific markets with more to come. Thanks for the question, Dave.

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#### **Operator**

Brett Fishbin, KeyBanc Capital Markets.

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

Hey guys, thanks very much for taking the questions. Just wanted to circle back on the gross margin question from earlier. I thought the answer on four key drivers was very clear. I just wanted to follow up more on the FY26 guidance, 61% to 63% represents 200 bps year-over-year at the midpoint, and 300 bps at the high end, so a pretty significant there.

And I was hoping you could talk through maybe the primary drivers supporting that level of expected improvement, how much do you think is coming from the FX movement this quarter? And then any considerations around seasonality or phasing that we should be thinking about? Thank you.

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

Yeah. Sure, Brett to take that. So it's Brett to Brett.

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#### **Brett Sandercock - Resmed Inc - Chief Financial Officer**

Yeah. So, could see my namesake So yeah, I mean, we've got that -- the guidance there is 61, 63, we're kind of at lower end. And then we wouldn't progressively improve that. So I think that through it might start at that lower end, right?



And we'll look to exit the fiscal year a higher rate than what we started. So that's how we're kind of thinking about it. And then what are we -- kind of what are the drivers going to be through FY26. There's probably a lot of talked about continuing the theme, but it's really that pipeline of cost optimization initiatives.

So it will be around procurement initiatives. There'll be around manufacturing improvements in terms of how we balance that, cycle times, all that plays out. There will be scale benefits. We want to keep going with our logistics efficiencies as well. We've made a lot of inroads obviously, on that over the last 12 months.

So we think we can -- there will be some there that we have still to get, I think, on logistics efficiencies, and we'll keep working on that. The transition of AS10, AS11 platform will continue to play out. Obviously, a lot of that has played out, but that's still play out through FY26.

We're probably likely -- probably a natural kind of product mix tailwind will be favorable, you think going into FY26. And then new product introductions always give you an opportunity as well through that. So they're kind of -- there's no one silver bullet on this. It's really about really strong execution to drive that on multiple fronts. And that's how you have to tackle it.

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

Very, very helpful. Thank you.

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**Operator**

Matt Taylor, Jefferies.

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**Matthew Taylor** - *Jefferies LLC - Equity Analyst*

Hi, thanks for taking the question. I did want to go back, Mick, because you had so much experience with competitive bidding last time. Maybe you could just summarize in your words, the impact that it did have on your business and maybe more importantly, didn't have. I know there was a lot of concerns covering it back then and then ultimately, it wasn't that bad. And could you draw any lines from that situation to what may happen now?

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

Yeah, Matt, it's really good. And I know we've only got three minutes left here, so I'll do my best to summarize the last 15 years or so is -- and yeah, you know when I took over CEO 13 years ago -- 12, 13 years ago, we were in the heat of it. And I'd been running the Americas before that, and we were in the heat of it.

And so a lot of learning. I'll do my best to say, I think when this sort of started around round one, round two, Medicare reimbursement was very significantly above private payer reimbursement. And so, you really couldn't argue the justification of not doing the program because government was paying a lot more than private payers.

As I look at it now, Medicare and private payers are very much in sync. And the private payers, there's lots of them, and there's 50 states, and there's -- it's like a 250 data point matrix with five payers and 50 states. But they mark the market on a very regular basis, annually or even quarterly in some and they're there.

The government is right in line with them. And as you saw in the last round, that round four in 2021, we've got a very mature HME provider population who looked at their costs and looked at the capabilities and bid appropriately, and it was slightly above the rates that were previously there.

And so then the program went back to what I call just a CPI or inflation-based adjustment with some efficiency measures these last four years. I think it's -- I look at the rules and I look at all the stuff that we've seen so far, it looks pretty similar to that last round.

There's some justifications of different percentiles and different averages and some questions we have that we'll get sorted out. But it's really -- it's not that different to what we've seen before, and the rates aren't that different from Medicare to private payers.

So I think, I won't say it's going to be a non-issue. I think for our HME customers, we want to work really closely with them and help them, and through our industry associations, and so on, we will, and we're going to support them through this.

But look, Resmed doesn't bid directly, so we don't -- we're not directly involved in the program, but all I can say is it's pretty benign. I don't think there's going to be any major perturbations. And as you said, we got through what was pretty dramatic changes, 15 years ago and 10 years ago, very well.

Actually, we grew very well through that. This would be a much -- relatively a much more minor change, and I think we will power through, and I think our customers will power through it too. But I think most importantly, Medicare beneficiaries who pay the taxes that drive the government money that supports the Medicare and Medicaid programs, they will get access to care.

And Resmed will fight for that, fight for the patients, particularly in rural areas that they get access to care. We've been very strong in advocating for that and we'll continue to do so. Thanks for the question. It was a great one, Matt.

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**Operator**

Thank you. We reached end of our question-and-answer session. I'd like to turn the floor back over for any further or closing comments.

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

Great. Well, look, thank you for joining us on our earnings call today. On behalf of the more than 10,000 Resmedians operating in 140 countries worldwide. I'm very pleased that we're able to deliver another very strong year of performance and to build value for all of you, our shareholders. We look forward to speaking to you -- many of you over the coming weeks, and we'll see all of you in 90 days. Salli?

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

Thank you, Mick. And I'll echo Mick, thank you to everyone for listening. 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.

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**Operator**

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

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