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# EDITED TRANSCRIPT

RMD - Q2 2020 Resmed Inc Earnings Call

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## OVERVIEW:

Co. reported 2Q20 Group revenue of \$736m, GAAP diluted EPS of \$1.10 and non-GAAP net income of \$176.3m or \$1.21 per diluted share.



## JANUARY 30, 2020 / 9:30PM, RMD - Q2 2020 Resmed Inc Earnings Call

### CORPORATE PARTICIPANTS

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**James R. Hollingshead** *ResMed Inc. - President of Sleep Business*

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### PRESENTATION

#### Operator

Welcome to the Second Fiscal Year 2020 ResMed Earnings Conference Call. My name is Christine, and I'll be your operator for today's call. (Operator Instructions) Please note, this conference is being recorded.

I would now like to turn the call over to Amy Wakeham, Vice President of Investor Relations and Corporate Communications. Amy, you may begin.

**Amy Wakeham** - *ResMed Inc. - VP of IR & Corporate Communications*

Good afternoon, and good morning, everyone. Thank you for joining us, and welcome to ResMed's Second Quarter Fiscal Year 2020 Earnings Call. This call is being webcast live and the replay, along with a copy of the earnings press release and our updated investor presentation, will be available on the Investor Relations section of our corporate website later today.



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Joining me on the call today to discuss our quarterly results, our CEO, Mick(technical difficulty)

### Operator

Amy, you may begin.

### **Amy Wakeham** - *ResMed Inc. - VP of IR & Corporate Communications*

Great. Thank you, everyone. Sorry for that. We were having a few audio issues. So we've redialed back in. Good afternoon, and good morning, everyone. Thanks for joining us, and welcome to ResMed's Second Quarter Fiscal Year 2020 Earnings Call. This call is being webcast live and the replay, along with a copy of the earnings press release and our updated investor presentation, will be available on the Investor Relations section of our corporate website later today.

Joining me on the call today to discuss our quarterly results, our CEO, Mick Farrell; and CFO, Brett Sandercock. Other members of management will be available during the Q&A portion of the call.

During our call, we will discuss several non-GAAP measures. For a reconciliation of the non-GAAP measures, please review the notes to today's earnings press release. And as a reminder, our discussion today may include forward-looking statements, including, but not limited to, expectations about ResMed's future performance. We believe these statements are based on reasonable assumptions, however, our actual results may differ. You are encouraged to review our SEC filings for a discussion of the risk factors that could cause our actual results to differ materially from any forward-looking statements made today.

With that, I'd like to now turn the call over to Mick.

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

Great. Thanks, Amy, and I'll go a little faster in my prepared remarks. So we still have time for Q&A, despite the phone difficulties. Thanks, Amy, and thank you to all our shareholders for joining us today as we review results for ResMed's second quarter of fiscal year 2020.

On today's call, I will discuss our long-term strategy. I'll then review top level financial results, some business highlights from the quarter and a few key milestones. Then I'll hand the call over to Brett, who will walk you through our financials in further detail.

Our team achieved another quarter of strong revenue growth across the portfolio, driven by superb performance in the mask category, particularly in the U.S. market, with good performance across the 140 countries where we provide our solutions. We continue to take market share with our software solutions that enable increased therapy adherence with resupply programs, providing support to those who need it and with our innovative new products.

Customers are voting with their wallets and they are voting for ResMed. As the world's leading software-driven medical device company, we are using digital health technology to transform the industry. We have sold nearly 11 million, 100% cloud connectable medical devices into the market. And Air Solutions, our cloud-based ecosystem, manages more than 12 million patients.

In the last 12 months, we have changed over 15 million lives by providing a person with a ResMed device or complete ResMed mask system to help them breath better and live better lives.

In addition, our Brightree and MatrixCare software systems, are helping to manage 90 million more people outside the hospital. Digital health technology is an integrator across everything that ResMed does. AirView, myAir, Propeller and a portfolio of other digital health solutions allow us to better engage with our customers and partners, including patients, physicians, providers, payers and complete healthcare systems.

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We are investing in advanced analytics and expanding our capabilities in machine learning and machine intelligence so that we can grow this digital health ecosystem at double digits on a volume basis. We will grow from just over 100 million lives improved with our healthcare products and solutions as we ended 2019 to our ambitious forward-looking goal of improving 250 million lives in 2025.

We now have over 5.5 billion nights of respiratory medical data in the cloud, and we are analyzing these data to derive actionable insights for the benefit of patients, physicians, providers and healthcare systems. Our relentless focus on product and software innovation continues to set us apart from our competition. We have massive opportunities ahead in sleep apnea, in COPD, as well as in outside the hospital software, to help patients live better quality lives, to help patients and healthcare systems save money and to help achieve better management of chronic disease.

We believe that the future of healthcare is outside the hospital. That's where ResMed competes today, and that's where we are winning today. We have the right elements in place to achieve our strategy and to drive financial success as we provide market-leading value to customers.

Let's now briefly review our top level financial results. We achieved another quarter of double-digit revenue growth. We were up 14% in constant currency across our portfolio. This growth continues to be well balanced across our domestic U.S. as well as our global product sales as well as from our Software as a Service businesses.

We continue to deliver operating leverage, with non-GAAP operating profit growth of 21% year-over-year and non-GAAP diluted earnings per share of \$1.21.

I'd like to focus now on our core sleep apnea and respiratory care businesses. In the devices category, we delivered a good quarter with year-over-year constant currency device growth of 8% globally, supported by a strong 9% device growth in the United States, Canada and Latin America geographies; as well as by improving Europe, Asia and rest of world growth, which was at 6% constant currency in the device category.

We continue to face headwinds for device growth in France, as a result of the 2018 and 2019 digital health-related fleet upgrades. We expect that the headwinds will begin to abate in the upcoming European summer, and we will start to return to market growth for devices in France during fiscal year 2021.

Underlying patient growth remains healthy around the globe, and we continue to benefit from strong market dynamics with over 900 million people worldwide suffering from undiagnosed and untreated sleep apnea.

Growth in the masks and accessories category of our business was incredibly strong during the quarter. We were up 16% constant currency globally in this category, well ahead of market growth rates, indicating that we gained significant market share with our latest patient interface innovations.

Removing the impact of some software within this category, we are still growing our global mask franchise in the mid-teens.

Our flagship masks, the AirFit F20 and the AirFit N20, continued their growth across global markets. The success of these masks was augmented by continued good uptake of our more recent mask launches. We have launched a steady rhythm of mask innovation over the past 15 months. We have just lapped the successful launch of the F30 in the December quarter, and we will lap the launch of the N30, the N30i and the P30i during the coming 12 months. The F30i was launched just over a week ago, combining the needs for patients in the Freedom and the Minimalist mask segments.

With our portfolio of solutions, we are ensuring that we have the right mask for every patient every time. We are innovating and expanding our mask portfolio to offer comprehensive options for physicians and home care providers and for the specific needs of the ultimate customer, and that's the person who suffocates every night with sleep apnea. We remain focused on driving innovation to meet underserved customer needs. We are creating future products that are smaller, quieter, more comfortable and more customized to each person's needs.

Through digital health technologies, such as the myAir app, we are driving patient engagement with our therapy, so that people can enjoy the benefits of better breathing and better sleep. We have well over 2 million patients using myAir and leveraging its insights and personalized feedback

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through coaching algorithms. In parallel, we are also ensuring that the cost of sleep apnea as a chronic disease can be better managed by physicians, providers, payers and healthcare systems.

Our digital end-to-end solutions, combined with available 100% cloud connectivity as well as information provided to patients on their own smartphones, are all leading to significant improvements in cost, improvements in healthcare outcomes and improvements in quality of life. We believe cloud-based software, combined with world-leading medical devices, can add value and improve both clinical outcomes as well as the patient experience.

On the partnership front, our joint venture with Verily is creating software solutions to help identify and engage and enroll people with sleep apnea on a journey to better sleep and better breathing. We have commenced pilots in a handful of U.S. cities to improve awareness, identification and engagement with the importance of good sleep and breathing to overall health.

Our philosophy is this: The more a person knows about how much they suffocate every night, and the consequences of that suffocation on their overall health outcomes, the more likely they will seek solutions. At its simplest level, this partnership will drive incremental growth in our core sleep apnea business. Over the longer-term and on a deeper level, this partnership will also allow ResMed to participate in a broad chronic disease management platform covering sleep apnea, cardiovascular disease, diabetes, mental health and beyond.

I'd like to now focus on our business in respiratory care. There were nearly 400 million people suffering from chronic obstructive pulmonary disease, or COPD, worldwide. We don't believe these people are well served by global healthcare systems today, and many COPD patients are frequent visitors to hospital emergency rooms with admissions and frequent readmissions.

We have a vision to better manage COPD patients through the use of technology with digital end-to-end solutions. Technology, such as our Propeller platform, helps how patients are communicated to, it helps how they are encouraged in their medical care and it helps how folks are looked after as an individual person. We believe that technology, combined with world-leading medical equipment, can add substantial value to improve both clinical outcomes and the patient experience.

We plan to offer a portfolio of solutions through all stages of COPD progression. We will be there with stage I and stage II COPD patients as they commence inhaled pharmaceutical therapy, managed by the Propeller platform. We will be there with stage II and stage III COPD patients as they add portable oxygen therapy to their care. We will also be there with stage III and stage IV COPD patients as they commence noninvasive ventilation therapy and ultimately, life support ventilation therapy.

We will manage the person on, one, end-to-end digital health, COPD platform, helping the patient, helping their caregivers and loved ones as well as helping their physicians and providers so that they have the right information at the right time, lowering costs and improving outcomes.

Our team at Propeller continues to progress their business as we move along the path from pilot trials to commercial partnerships with both pharmaceutical partners and healthcare systems. The digital health opportunity with inhaled respiratory medicine adherence will take time to build, and we are making good progress.

In December, Propeller was included as the only chronic respiratory disease solution in Express Scripts first formulary for digital health solutions. In November, access for Propeller users was expanded to pharmacy services from CVS, from Walmart, from Kroger and from Rite Aid. This was accessed directly from the Propeller app via the My Pharmacy feature within that smartphone application. We will update you on the milestones for Propeller with partners in both pharma as well as healthcare systems as we move forward throughout 2020.

Finally, I'd like to focus on our Software-as-a-Service business. We continue to integrate and optimize the out-of-hospital SaaS portfolio for long-term growth. We are focused on leveraging our competitive advantage as the only strategic player competing with leading software solutions, focused on home medical equipment providers, skilled nursing facilities as well as home health and hospice providers.

Our SaaS portfolio revenue grew 37% year-on-year this last quarter, benefiting from the MatrixCare acquisition that we lapped during November. We estimate that the weighted average market growth rate of these sectors we compete in is in the high single digits.



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Excluding the timing benefit of the MatrixCare acquisition and on a pro forma basis, our SaaS portfolio grew in line with market in Q2. Our plan is to beat that market growth rate over the medium to long term.

As we reach the fourth anniversary of our Brightree acquisition here in 2020, we are achieving strong (inaudible) in our home medical equipment, or HME sector with our Brightree team in Atlanta. We just passed the 1-year anniversary with our MatrixCare acquisition in the quarter, and we are increasing our investments in our MatrixCare team up there in Minneapolis. This investment is focused on new module introduction for our MatrixCare platform, so that we can ensure that we're able to grow and share skilled nursing facility as well as home health hospice sectors as we move forward.

We are doing the hard work to make MatrixCare as successful as Brightree is in the ResMed portfolio, and we have all the elements in place to do that. It took around 24 months to see strong, sustainable returns from our investments in R&D and our management team at Brightree. We think we can meet or beat that time line for strong and sustainable returns from our MatrixCare investments that we are currently making.

Last quarter, we announced a collaboration with Cerner as the new preferred partner for home health and hospice software for Cerner's customers. It is early days in that partnership and things are going very well. We've started to migrate existing home health and hospice customers to our MatrixCare solution. Our sales team is actively engaged with Cerner's sales team, with customers learning the benefits of our MatrixCare, home health and hospice software. We are excited to drive growth from this partnership.

The rich interoperability between our 2 solutions will provide value for both Cerner and ResMed customers, as well as their patients and residents.

I would like to take a moment to announce an exciting technology tuck-in acquisition that we are just in the process of completing. Just this week, Brightree signed an agreement to acquire a company called SnapWorx. SnapWorx is a privately held software company that provides patient contact management and workflow optimization for sleep apnea resupply. The combination of Brightree's technology and live call services with this new SnapWorx's technology creates the largest resupply base in the industry with end-to-end workflow automation.

For our HME customers, the combination of these 2 technologies, Brightree and SnapWorx, will increase patient adherence and increase operational efficiency. We expect the transaction to close very shortly. The acquisition of SnapWorx is expected to be neutral to our non-GAAP ResMed earnings per share initially, however, we expect this acquisition will be accretive to non-GAAP earnings per share during fiscal year 2021.

In summary, we have the vision to transform and significantly improve software solutions across outside the hospital healthcare sectors. We see a future where patients seamlessly transfer from HME to skilled nursing facilities to home health providers to hospice providers and beyond with reduced costs and increased efficiency, resulting in better system outcomes as well as a higher quality of life for the person in out-of-hospital care.

Before I turn the call over to Brett, let me close with this. The first half of fiscal year 2020 was strong, and we are well positioned to grow through the second half of fiscal 2020 and beyond. The continued success of our mask and device portfolio, along with a solid pipeline of new products and new digital health solutions covering sleep apnea, COPD and out-of-hospital software, gives us confidence in continued growth as we move through the year. We have positioned ResMed for the long term as the global leader in digital health, driving top line and bottom line growth as we execute toward our 2025 strategy.

We are focused on our triple aim: First, to slow chronic disease progression; second, to reduce overall healthcare system costs; and third, to improve quality of life for the ultimate customer, the patient.

With that, I'll hand the call over to Brett in Sydney for his remarks, and then we'll go to Q&A. Brett?

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**Brett A. Sandercock** - ResMed Inc. - CFO

Great. Thanks, Mick. In my remarks today, I'll provide an overview of our results for the second quarter of fiscal year 2020. As Mick noted, we had a strong quarter. Group revenue for the December quarter was \$736 million, an increase of 13% over the prior year quarter. In constant currency terms, revenue increased by 14%.

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Excluding revenue from acquisitions, group revenue increased by 11% on a constant currency basis.

Taking a closer look at our geographic distribution and excluding revenue from our Software-as-a-Service business, our sales in U.S., Canada and Latin America countries were \$408 million, an increase of 14% over the prior year quarter. Sales in Europe, Asia and other markets totaled \$242 million, an increase of 5% over the prior year quarter. However, in constant currency terms, sales in combined Europe, Asia and other markets increased by 8% over the prior year quarter.

Breaking out revenue between product segments. U.S., Canada and Latin America device sales were \$204 million, an increase of 9% over the prior year quarter. Masks and other sales were \$204 million, an increase of 19% over the prior year quarter. Revenue in Europe, Asia and other markets, device sales were \$162 million, an increase of 4% over the prior year quarter or in constant currency terms, an increase of 6%.

Masks and other sales in Europe, Asia and other markets were \$79 million, an increase of 8% over the prior year quarter or in constant currency terms an increase of 11%.

Globally, in constant currency terms, device sales increased by 8%, while masks and other sales increased by 16% over the prior year quarter. Software as a Service revenue for the second quarter was \$87 million, an increase of 37% over the prior year quarter.

During the rest of my commentary today, I'll be referring to non-GAAP numbers. The non-GAAP measures adjust for the impact of amortization of acquired intangibles, purchase accounting fair value adjustment to MatrixCare deferred revenue, litigation settlement expenses and acquisition-related expenses. We have provided a full reconciliation of the non-GAAP to GAAP numbers in our second quarter earnings press release.

Note that this quarter, for GAAP reporting purposes, we are now reflecting the portion of amortization of acquired intangibles attributable to developed technology in our cost of sales rather than being allocated to operating expenses. We've made this change to align with the SEC disclosure guidance. This will mean we will disclose both GAAP and non-GAAP gross profit measures going forward.

We have included a reconciliation of both GAAP and non-GAAP gross profit and gross margin in our press release. Going forward, I will reference this non-GAAP metric, as I believe it is the best measure of our underlying gross margin.

Our non-GAAP gross margin improved to 59.7% in the December quarter compared to 59.1% in the same quarter last year. Compared to the prior year, our non-GAAP gross margin increased by 60 basis points. This was predominantly attributable to favorable product mix and manufacturing efficiencies, partially offset by typical declines in average selling prices.

Moving on to operating expenses. Our SG&A expenses for the second quarter were \$171 million, an increase of 6% over the prior year quarter. In constant currency terms, SG&A expenses increased by 8%. Excluding acquisitions, SG&A expenses increased by 2% on a constant currency basis.

SG&A expenses as a percentage of revenue improved to 23.3% compared to 24.8% that we reported in the prior year quarter. Looking forward, subject to currency movements and taking into account recent acquisitions, we expect SG&A as a percentage of revenue to be in the range of 23% to 25% for the remaining 2 quarters of fiscal year 2020.

R&D expenses for the quarter were \$50 million, an increase of 16% over the prior year quarter or on a constant currency basis, an increase of 18%. Excluding acquisitions, R&D expenses increased by 4% on a constant currency basis. R&D expenses as a percentage of revenue was 6.8% compared to 6.6% in the prior year.

Looking forward, subject to currency movements, we expect R&D expenses as a percentage of revenue to be in the range of 7% to 8% for the balance of fiscal year 2020.

Total amortization of acquired intangibles was \$20.6 million for the quarter, an increase of 30% over the prior year quarter, reflecting the impact from our recent acquisitions. Stock-based compensation expense for the quarter was \$14.1 million.



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Our non-GAAP operating profit for the quarter was \$218.5 million, an increase of 21% over the prior year quarter, while non-GAAP net income for the quarter was \$176.3 million, an increase of 22% over the prior year quarter.

On a GAAP basis, our effective tax rate for the December quarter was 10.2%, while on a non-GAAP basis, our effective tax rate for the quarter was 11.6%. Our tax rate was favorably impacted by a tax benefit of \$20.3 million associated with the vesting of employee share-based compensation, in particular, the tax deduction associated with the vesting of executive performance stock units in November.

Excluding the impact from this benefit, our GAAP effective tax rate would have been 21.6% and our non-GAAP effective tax rate would have been 21.8%.

Looking forward, we estimate our effective tax rate for the second half of fiscal year 2020 will be in the range of 19% to 21%. Non-GAAP diluted earnings per share for the quarter were \$1.21, an increase of 21% over the prior year quarter, while GAAP diluted earnings per share for the quarter were \$1.10.

Our diluted earnings per share were also favorably impacted by the tax benefit that I've just discussed. Excluding the impact of this gain, our non-GAAP earnings per share would have been \$1.07.

Cash flow from operations for the second quarter was \$69.9 million, reflecting robust underlying earnings, partially offset by the timing of tax payments with \$111 million in tax paid in our second quarter. Additionally, we made the payment for our settlement to the U.S. Department of Justice of \$40.6 million this quarter.

Capital expenditure for the quarter was \$25.1 million. Depreciation and amortization for the December quarter totaled \$45.5 million. During the quarter, we paid dividends of \$56.1 million.

We recorded equity losses of \$6.9 million in our income statement in the December quarter associated with the Verily joint venture. We expect to record approximately \$6 million of equity losses each quarter for the balance of fiscal year 2020 associated with the joint venture operations.

Our Board of Directors today declared a quarterly dividend of \$0.39 per share. At December 31, we had \$1.3 billion in gross debt and \$1.1 billion in net debt. Our total assets were \$4.4 billion, and our balance sheet remains strong with modest debt levels.

Finally, to recap, our top line revenue was strong this quarter, with growth across all major categories. Gross margin expanded, and our operating costs remain well controlled. As a result, we are continuing to drive operating leverage with Q2 non-GAAP operating profit up 21% year-on-year. We are focused on driving operating results, integrating our SaaS acquisitions and ensuring we continue to invest in our strategic long-term opportunities.

And with that, I'll hand the call back to Amy.

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**Amy Wakeham** - ResMed Inc. - VP of IR & Corporate Communications

Great. Thank you, Brett. We will now turn to the Q&A portion of the call. [Operator Instructions] Christine, we are now ready for the Q&A portion of the call.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions)



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Your first question comes from the line of Margaret Kaczor from William Blair.

**Malgorzata Maria Kaczor** - *William Blair & Company L.L.C., Research Division - Research Analyst*

Maybe the first one from me is on mask growth. Obviously, you guys continue to do very, very well from that perspective. So as we look at the last maybe 12 to 18 months, can you give us a sense of the relative impact of new product launches, especially in the white spaces, maybe that you weren't in before, the resupply agreements that you kind of referenced a little bit at JP Morgan, market growth and general share taking? And the idea is, as we look forward, how are the moving dynamics between those categories? And how do you kind of adjust your strategy to keep performance high? Thanks.

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

Yes, thanks for your question, Margaret. And as you noted, there's a number of factors contributing to this very strong mask growth that we had, 16% constant currency on a global basis. And even taking out some of the software just well up there in the mid-teens. You hit on pretty much all of them, there's increased adherence that we're driving through our digital health solutions. When we're achieving 87% adherence, when the doctors using AirView and the patients using myAir and all the digital techs in play, that drives up our mask growth.

Secondly, when there's resupply in patients have the opportunity if they want to, to participate in getting a fresh mask as their old mask becomes used. And we are partnering with Brightree Connect and with ResMed ReSupply to provide that. And the acquisition of SnapWorx will help. And then thirdly, and really importantly, these last 15 months, the steady flow of 4 really exciting new mask innovations. Interestingly, these mask innovations aren't to replace a previous product, but to go after underserved or under met customer needs. And we call them Minimalist category and the Freedom category, where people move through a different positions during sleep, front, left, right sleepers want a Freedom a mask. And people who have some claustrophobia or want small lighter masks, go for the Minimalist category. And the F30s that we just launched is right in the heart of both of those. So it's all of the above contributing to this really strong growth.

We still think that the market growth rate is in the high single digits for masks. And we took really good share during this December quarter. Our job and challenge is to keep driving all those things, resupply, adherence and mask innovation, and we plan to do just that.

**Malgorzata Maria Kaczor** - *William Blair & Company L.L.C., Research Division - Research Analyst*

Thanks Mick.

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

Thanks Margaret.

**Operator**

Your next question comes from the line of Matthew Mishan from KeyBanc.

**Matthew Ian Mishan** - *KeyBanc Capital Markets Inc., Research Division - VP and Senior Equity Research Analyst*

Great and thank you for taking the questions. And just a follow-up on that, on the market share gains in masks. Are you winning new patients at a higher market share clip, or you able to convert existing sleep apnea patients from competitors and getting them to switch?

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

Yeah, Matthew, that's a really good question. I'll hand that to Jim Hollingshead, the President of our Sleep division to walk through that.

**James R. Hollingshead** - ResMed Inc. - President of Sleep Business

Good morning Matthew, I'm down in Australia. So I hope you can all hear me as well.

**Matthew Ian Mishan** - KeyBanc Capital Markets Inc., Research Division - VP and Senior Equity Research Analyst

I can hear you just fine.

**James R. Hollingshead** - ResMed Inc. - President of Sleep Business

Yes, it's a combination of both. We feel very confident in our overall position with mask that -- we've had so many masks launched. And as Mick referenced, we've had several mask launches in the last 15 months. All of them have been successful launches, and we now have a very wide portfolio, it's a widest portfolio offering of masks on the market. So we continue to take new patient share across all 3 mask categories. And I'm sure we're likely to also be getting competitors switching. And there's less market data available on that dynamic, but we're very confident we're taking new patient share pretty successfully.

**Matthew Ian Mishan** - KeyBanc Capital Markets Inc., Research Division - VP and Senior Equity Research Analyst

Thank you.

**Operator**

Your next question comes from the line of Sean Laaman from Morgan Stanley.

**Sean M. Laaman** - Morgan Stanley, Research Division - Australian Healthcare Analyst

Good morning Mick, hope you're well. My question relates to something you announced last quarter. I wonder if we could get bit of an update on how this Novartis deal with Propeller, there's any update there and how that might be tracking?

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

Thanks, Sean. Well, we don't talk in our core business or in our new software businesses about individual customers or partners until things are public and moving along, but there was a public data last quarter from our work with pilot trials with both GSK and Novartis in the Propeller area looking at inhaled pharmaceutical medicines. Look, the beauty of it -- as I sort of described in the opening remarks, the beauty of Propeller is it provides an end-to-end platform to help us take care of people with chronic obstructive pulmonary disease. And so Stage I/II, with Propeller we can take care of the patients, ensure they have the medicine that their doctor prescribed for them, but also engage with that person because they're going to -- it's a progressive disease, they're going to move from stage I to Stage II and stage III and stage IV COPD.

And so our goal with Propeller is not just to have a partnership with pharma company, A or B, but it's to really create a platform where we help end-to-end management of a person as they move through disease progression. And it helps us engage with that person to help them adhere to their therapy, whether that therapy is the pharmaceutical, inhaler, or that therapy is a portable oxygen concentrator or that therapy, as they move forward is a noninvasive ventilator or a life support ventilator. And so that's our goal with these partnerships.



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As we hit milestones during 2020 on the pharma sale -- side, and as we hit milestones on the healthcare system side, we'll give updates on that. But look, yes, we did talk to the MAGNIFY trial that we are still enrolling patients for with Novartis. That's in its early days. So we'll give updates on the clinical data, but also importantly, commercial partnerships as they move forward through 2020. Thanks for your question Sean.

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**Sean M. Laaman** - *Morgan Stanley, Research Division - Australian Healthcare Analyst*

Yeah thank you Mick.

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**Operator**

Your next question comes from the line of John Deakin-Bell from Citigroup.

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**John Deakin-Bell** - *Citigroup Inc, Research Division - Director & Head of Healthcare in Australia and New Zealand*

Good morning. My question just relates to the increase in the SG&A. Obviously, you've got fantastic leverage from that. And I think we've talked about it previously, but the 2% underlying seems, I think, that's a record low number for you? And just give us a sense perhaps of how that might look over the next 6 months and maybe going forward? Or should it return back to the kind of mid-single digit levels?

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

So I'll hand that to Brett Sandercock down in Sydney.

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**Brett A. Sandercock** - *ResMed Inc. - CFO*

Yes. Thanks. Hi John, yes, it was low this quarter, and we did benefit certainly from much lower litigation-related expenses this quarter relative to last year. So that did certainly moderate that growth rate. In my guidance, I said I think we'll revert back to the range of 23% to 25% for the second half, which would suggest that we will track higher in terms of growth rates for SG&A, at least in the back half, but certainly helped by some reduction or significant reduction in litigation costs coming through this quarter relative to last year. It was probably the single biggest driver, and that certainly moderated the growth rate. And try to adjust for that in that kind of range that I've given as a percentage of revenue going forward to be a better indicator, I think.

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**John Deakin-Bell** - *Citigroup Inc, Research Division - Director & Head of Healthcare in Australia and New Zealand*

That's helpful, thanks Brett.

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**Operator**

Your next question comes from the line of Saul Hadassin from UBS.

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

Saul, you may be on mute.

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**Saul Hadassin** - *UBS Investment Bank, Research Division - Executive Director & Research Analyst*

No, I'm not -- can you hear me?

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

We can hear you now, yes.

**Saul Hadassin** - *UBS Investment Bank, Research Division - Executive Director & Research Analyst*

Great. Yes, just a question for Brett. Brett, just on gross margin. Just wondering if you can give some color on the underlying sleep and respiratory care business. So what the gross margin might have done ex acquisition contribution and you usually provide an outlook for the rest of the fiscal year for gross margin as well? Can you give us that -- some color there too?

**Brett A. Sandercock** - *ResMed Inc. - CFO*

Yeah, I mean, I think going forward, the second half, I think, broadly consistent with where we are, would be an estimate on the gross margin. As you know, a lot of moving parts on that. So that would be our expectation. If you look at the acquisitions we did, MatrixCare coming halfway through the quarter. So fairly -- it's kind of a fairly minimal impact this quarter. The big drivers of that year-on-year growth in expansion of our gross margin around the product mix. And that's really being driven by that out-performance you're seeing in mask growth. And that's typically higher margins, what you would see on devices. So that's the biggest impact.

And then we're still seeing manufacturing efficiencies, some around logistics and so on as well. And they continue to come through on gross margin. So they are the two 2 big drivers this quarter.

**Saul Hadassin** - *UBS Investment Bank, Research Division - Executive Director & Research Analyst*

Great. Thank you.

**Operator**

Your next question comes from the line of Shane Storey from Wilson HTM Limited.

**Shane A. Storey** - *Wilson's Advisory and Stockbroking Limited, Research Division - Senior Analyst*

Hi, thanks. Just looking again back at the U.S. mask business, if I can, just from another angle. I mean, you spoke about the adherence and resupply. But have you measured the step-up in the number of masks per patient per year, say, over the last 12 to 18 months? I mean, the last reference point that I've got is maybe a tick under 2 per patient per year. So any observations around that might be very useful? Thanks.

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

Yes, Shane, thanks for your question. I think there's a whole portfolio of customers doing different levels of resupply in different countries around the world. If you take the example of France, there's a government-mandated requirement that you provide 2 masks -- 2 masks per patient per year. And it's different in all the 140 countries. You're focused on the U.S. growth, which was strong. And yes, the last public number we did talk about that was 1.9 masks per patient per year. But look, over the 5,000 customers in the U.S., there's a broad spectrum of adoption of Brightree ReSupply, Brightree Connect, ResMed ReSupply and technologies like SnapWorx that we just acquired. And so there's a broad range, but Jim, do you want to -- Jim Hollingshead, do you want to provide any further color as to what you'd want to share on mask resupply metrics?



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**James R. Hollingshead** - ResMed Inc. - President of Sleep Business

Yes. Thanks, Mick, and thanks, Shane. I would just to add to what Mick said, I'd just say a couple of things. The first one is the trend -- we don't have to talk about that number publicly, obviously. But the trend in the U.S. has been steadily -- slowly but steadily topped over the last several years, and we attribute that both to -- to the range of things Mick talked about earlier in the call. So better adherence tools that we're providing on our platforms, better masks lead to better adherence initially and therefore better long-term adherence and also the adoption of resupply platforms by our HME customers. So the trend is slowly and steadily up. It's still well below Medicare and commercial payer allowables. And so it's a good trend, and there's still a lot of opportunity.

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**Shane A. Storey** - Wilsons Advisory and Stockbroking Limited, Research Division - Senior Analyst

Okay thanks.

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**Operator**

Your next question comes from the line of Steven Wheen from Evans & Partners.

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**Steven David Wheen** - Evans & Partners Pty. Ltd., Research Division - Executive Director of Healthcare

Good afternoon guys. My question is just on your SaaS businesses and the growth rate there. I was wondering if you could help us deconstruct that growth rate, particularly between MatrixCare and Brightree? And perhaps as part of that to give us an update as to your understanding of how those businesses are performing since they've been acquired, I guess, with reference to the EPS outlook that you provided at the time of the acquisitions?

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

Thanks for the question, Steve. That allows us to talk to our investment in SaaS. And in SaaS, this quarter was 12% of our global revenue. And so it's a sector that we're calling out. And you'll see that in our financials. It's a very hyper competitive sector. When you look at HME software, you look at skilled nursing facility software and you look at home health and hospice software. So I'm going to be really hesitant to give detailed market share and/or growth rates within each of those sectors. Look, what I said on the prepared remarks is true that across -- if you look at ResMed's weighted average revenue across HME, skilled nursing facility, home health and hospice as well as the others, private duty home care and life plan communities, the weighted average market growth rate in those sectors is in that high single digits.

And during the December quarter, over that portfolio, we held share. We grew with the -- taking out the acquisition benefit that gave us 37% growth, we grew in that high single digits on our weighted average portfolio.

One thing I'll say is, you know, we've -- when we hit April here in 2020, we will have owned Brightree, 4 years. And as you guys remember, because you've followed the stock for a long time, the first 2 years with Brightree, we were investing. We put some new management team, leaders in there. We brought in a new CEO, a new CTO and some skill sets in R&D. We're doing very similar things now in our MatrixCare journey. And so I'm not going to break it out in detail, but qualitatively, I'll say that the investments that we put in those first 2 years into Brightree are really starting to pay off. We've got new logos, new customers, new modules, and we're taking share and that growth is picking up.

And at MatrixCare, we're making those investments today in more R&D, you know, more management skills and capabilities and looking, obviously, back end synergies across our portfolio. So you know -- I think we can meet or beat the timing of our Brightree investments and the strong and sustainable growth that we're now getting out of that in our MatrixCare investments.

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**Operator**

Your next question comes from the line of David Low from JP Morgan.

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

Thanks very much. Just a quick one from me. You've mentioned that the mask sales included some software revenues. Just wondering if you could explain what that is? And how much of a contribution that will make going forward?

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

Yes, there's a little bit of that. I'll hand it to Brett to go through the financial details on that.

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**Brett A. Sandercock** - *ResMed Inc. - CFO*

Sure, Dave. Probably the bigger one there is the -- just through the software related to -- or the platform-related to Propeller acquisition. So that's kind of -- that's probably the biggest single delta. There'd be a few others made, but that's probably the biggest one.

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

Great, thanks very much.

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**Operator**

Your next question comes from the line of Andrew Goodsall from MST Marquee.

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**Andrew Goodsall** - *MST Marquee - Healthcare analyst*

Thanks very much. Just obviously, looking at the current Coronavirus issue, and I think if we go way back to SARS, you made sales of about \$5 million of CPAP in bilevels into China. Just wondering if there's any flow-through effect to yourself from the current Coronavirus?

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

Yes. Thanks, Andrew. It's Rob Douglas speaking. It's a pretty dynamic situation going on at the moment in China. And so tracking it is difficult, but we are tracking very closely. In terms of our China business, we think, obviously, the hospital is going to be very busy on their respiratory. So there'll be a lot of focus on that. We would expect to see increased demand for ventilators, whether it's of the same relative scale to SARS or not, we don't know yet.

We're actually working hard on our local supply chain there. Remember, we've got a really good team in China is building good ventilators in China for China. And so -- in fact, some of our team have been working in some of these hospitals. And Jason Sun, our Head of China, said they're local heroes, who are really staying on the ground there and helping look after patients in the face of this terrible disease. So -- I wouldn't be predicting exactly what the impact will be on an overall scale. There will be an offset as well, likely the hospitals won't be looking at sleep patients for a while. So there maybe some impact to our Sleep, in China. But it's unlikely all of that to be material.

Just one other point in terms of the overall business, we've mentioned many times. Our supply chain isn't configured around China. Most of it's not in China, but there are some second and third tier suppliers in there, and we are working closely with them at the moment. We wouldn't expect this to be a problem, but we'll have to keep a close eye on them.

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**Andrew Goodsall** - *MST Marquee - Healthcare analyst*

Thank you very much.

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**Operator**

Your next question comes from the line of Lyanne Harrison from Bank of America.

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**Lyanne Harrison** - *BofA Merrill Lynch, Research Division - VP*

Good morning gentlemen and thank you for taking my question. Just to continue the discussion on the SaaS business and probably more specifically. Previously, we talked about resupply expansion and that given you're over about 6 months in. Can you share how the resupply program outside of sleep apnea was tracking? And what your expectations are for the remainder of financial year '20?

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

Thanks, Lyanne. Yes. So you're talking about our expansion of our resupply capabilities. We went into some diabetic supplies and orthotics and urology products. And so those -- they're not a material part of ResMed's overall business, but they were a good expansion of ResMed's capabilities to look after the HME sector beyond just sleep apnea and CPAP supplies that we are very good at making sure that they work through. And so, you know, it's not material to our overall business.

So I'm not going to break out the specifics, Lyanne, other than to say, they're going well, and customers are adopting them. And I'd love them to become a material part of our overall business to be able to break out like that. But it's early days, and it's a good strategic play of Brightree to sort of expand their capability.

With workflow automation and, but it's a combination of live call and tech that we use on masks and CPAP suppliers, it's the same technology used on those diabetics and those other areas of HME. And so we're just helping our customers grow their businesses and get appropriate resupply when customers are there and requiring full authorization for it as well. So sorry, I can't get more specific than that, Lyanne.

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**Lyanne Harrison** - *BofA Merrill Lynch, Research Division - VP*

Thank you.

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

Thank you.

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**Operator**

Your next question comes from the line of Gretel Janu from Crédit Suisse.

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**Gretel Janu** - *Crédit Suisse AG, Research Division - Research Analyst*

So would you be able to give us an update on the outlook for competitive bidding? So what are your expectations in terms of reimbursement changes in 2021? And if there is potentially a decline in mask reimbursements, how is ResMed thinking about responding? Thanks

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

So I'll hand that question to Dave Pendarvis. Dave?

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**David B. Pendarvis** - ResMed Inc. - Chief Administrative Officer, Global General Counsel & Secretary

Yes, thanks, Gretel. We continue to be at the same place we were last quarter, and that is we're awaiting along with everyone else in the industry what the results are, the competitive bids that are in. We expect them at the end of the North American summer, so sometime around August or September, and we'll know where the results are. We are pleased with the efforts that we made and others in the industry made to educate bidders. So they understand the portfolio nature of the lead item in pricing and the impact of bidding on CPAP reimbursement on mask reimbursement. We're comfortable that we conduct business with our customers now on a portfolio basis.

And however, reimbursement settles out in the Medicare space, we expect there will continue to be strong demand for mask resupply. That will continue to be an important part of our customers' business, and it will be an important part for patient's long-term adherence success. So we don't see any significant changes in the trajectory going forward. But obviously, like with everyone else, we just have to wait and see what the actual reimbursement amounts come out to be.

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**Gretel Janu** - Crédit Suisse AG, Research Division - Research Analyst

Thanks very much.

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**Operator**

Your next question comes from the line of David Bailey from Macquarie.

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**David Bailey** - Macquarie Research - Research Analyst

Good morning guys. Just from me, Brett, cash flow looked a bit weak this quarter. Just wondering if you could talk through some of the moving parts there. You've called out the Department of Justice Litigation settlement. Just talk us through what normalized tax cash payment would look like? And then also net interest on a cash basis for the quarter would be great?

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**Brett A. Sandercock** - ResMed Inc. - CFO

Yes. So yeah, it was impacted by timing of tax payments as well. If you look at it underlying, excluding those, I still think actually pretty strong on the cash flow front. Normalized, you'd probably -- you're probably more like around the kind of \$40 million a quarter. And I think going into Q3, it's going to be more like that. So that just impacted for this quarter, expect Q3 and Q4 to be too much better in terms of cash flow performance.

And then the next one was...was that on the interest -- was it David?

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**David Bailey** - Macquarie Research - Research Analyst

Net interest, yes.



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**Brett A. Sandercock** - *ResMed Inc. - CFO*

Interest expense, or?

**David Bailey** - *Macquarie Research - Research Analyst*

Yes, administrative expenses. Is it broadly in line with what the income statement looking like?

**Brett A. Sandercock** - *ResMed Inc. - CFO*

Yes, pretty, pretty close. You wouldn't -- that's a good proxy. It's not going to be far different to that.

**David Bailey** - *Macquarie Research - Research Analyst*

Okay thanks.

**Operator**

Your next question comes from the line of Chris Cooper from Goldman Sachs.

**Chris Cooper** - *Goldman Sachs Group Inc., Research Division - Research Analyst*

Thanks for taking the question. I just got a follow-up to one of the previous questions. So on competitive bidding. I know it's a bit early to speculate on the particular outcome. I just guess I'm more interested in how you expect to manage the discussion with the DME partners yourselves? Would you expect positive and negative changes to be passed on to you one to one?

Or is there an outcome here where, I guess, you bear more of the downside than the upside, given there's a possible outcome here where some category is going to increase and some would decrease? Just any thoughts around how you're thinking about that would be helpful?

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

So I'll hand that to David Pendarvis, because, if Jim, you want to add any color from the customer perspective as well. But Dave, you first and then Jim.

**David B. Pendarvis** - *ResMed Inc. - Chief Administrative Officer, Global General Counsel & Secretary*

Sure. I mean, we already have ongoing discussions with our customers. We view them as good partners with us, and we have robust discussions where they would like to get the best prices they can. And we want to make sure that we serve them as best we can. That dynamic won't change with competitive bidding or anything else. So we expect to continue to have good discussions with them.

The environment from the last 1.5 years and for the balance of FY -- balance calendar year '20 is that there's been about a 2% increase each year in the Medicare reimbursement. And so that's obviously contributed to a benign pricing environment that we've been experiencing for the last period of time.

But we didn't participate with our customers in their bidding. Obviously, they made their own decisions. We're confident that the bidding process would be a more fair one this time, and we're hoping it will end up with a process that will be able to be good for the overall industry. But in terms of individual customer negotiations, Jim, you might want to comment on that.



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**James R. Hollingshead** - ResMed Inc. - President of Sleep Business

Thanks, Dave. I'll just add to that. I mean, I think that's very well put. We do have very good relationships with our -- with all of our customers and with our key customers, and we'll work through it together. The other thing I would just remind everybody is that Medicare fee-for-service is the minority part of the market. So it's an important part of the market, but it's a small percentage of the market.

**Operator**

And your next question comes from the line of Mike Matson from Needham.

**Michael Stephen Matson** - Needham & Company, LLC, Research Division - Senior Analyst

Hi thanks for taking my question. I just have, I guess, 1 more competitive bidding question. So with -- specifically with noninvasive innovation, that's the first time it's been included, I think. So could see a fairly steep decline. So can you maybe comment on what you expect there? And then also, I don't know if you could quantify how much of your sales are coming from non-invasive ventilation in the U.S. But just to help us understand what the exposure is?

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

Dave and Jim, you've got this again.

**David B. Pendarvis** - ResMed Inc. - Chief Administrative Officer, Global General Counsel & Secretary

Up again. So thanks, Mike. Noninvasive ventilation, obviously, is in 2 different categories. One, what we would characterize as life support ventilation is the new category that's now going to be a competitive bidding. Our AirCurve range, the bi-levels have previously been in competitive bidding. So that's not changing. It's more on the life support side.

And it is newly there, but there also have been reductions in that reimbursement over the past few years, leading up to this. So it's not necessarily the case that you'll see the same kinds of reductions that you saw in the round 2 kind of range previously for the sleep products. Nevertheless, we think it's important that patients can benefit, particularly end stage COPD patients can benefit from these devices, they already to get into the hands.

And that's of those patients and it's certainly a device that requires a lot of service. A lot of people in the home making sure the device is working appropriate. So you need to have a strong reimbursement for it. It's a smaller group of customers who actually do this kind of business. And they're probably likely to be focused on what their real cost of serving are.

So again, we're optimistic that our customers are sophisticated customers. They'll bid appropriately so that they can make an adequate margin to be able to provide that service that's really - particularly in this area - very well needed. So we'll wait and see how it goes, but we don't break out specifically our sales of life support anywhere in the U.S. or otherwise.

**Michael Stephen Matson** - Needham & Company, LLC, Research Division - Senior Analyst

Okay thanks. And then just with SnapWorx, can you maybe just comment on what that brings to the table that you didn't already have with Brightree?



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

Yes. So SnapWorx is a technology that adds to Brightree. There's some end-to-end capabilities that SnapWorx has to partner with the HME. So it goes beyond just the live call and technology capability. They have provided to a number of customers, an ability to further reach out the customers.

And we had observed this software that was partnering with our Brightree platform and performing really well with those customers. And so we had a relationship with SnapWorx over the last 12, 24, 36 months, and we've seen them really grow into a really good technology tuck-in and the Brightree team looked at the technology from the team there in Nashville, Tennessee that created this tech and the entrepreneurs that created it and we are really excited not only by what they're achieving in the market, which is better adherence and better engagement with both the HME and really importantly with the end-user customer.

And what I bring it back -- which is the patient, what I bring it back to this, some data, some clinical data that we presented from the 5.5 billion nights of data that show that as you increase adherence, and as you engage with the patient and resupply, the 2 add to each other. And some data that we just released last quarter shows that for every hour of sleep we reduced the total healthcare costs for inpatient by 8%. So this is all tied together, right? So Brightree ReSupply, ResMed ReSupply and SnapWorx will increase adherence, drive increased mask resupply, and that will also, through that increase adherence, lower the costs of the total healthcare system by 8% and for every hour of sleep up to those 7 hours. And so I think that combination is really powerful, of now Brightree plus SnapWorx.

Now it's early days. We're just literally going through the final sign offs of this acquisition, but watch us over the next 12, 24 months, and we'll give you updates, obviously, every quarter as to how well that integration of that technology is going.

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**Michael Stephen Matson** - Needham & Company, LLC, Research Division - Senior Analyst

Thank you.

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**Operator**

Your next question comes from the line of Suraj Kalia from Oppenheimer.

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**Michael J. Ott** - Oppenheimer & Co. Inc. - Associate Analyst

Good afternoon and thank you for taking my question. This is Mike Ott on for Suraj. We read recently that Fitbit is adding oxygen variation graph for select users with an FDA submission for sleep apnea diagnosis somewhere in the near-term here. I'm just curious if you see that as longer term, helping to increase the number of OSA patients treated?

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

Yeah, Mike, thanks for the question. And look, it's really interesting that tech companies are really getting involved in the field of, I'd call it, health wellness and sleep wellness is a big part of that. Obviously, we have our partnership with Verily, and they have the Google watch as part of their baseline study, and they're doing some identification, I'd call it. You call it diagnosis, I call it, identification of potentially at risk people for sleep suffocation or sleep apnea. I think what Fitbit has is along those same lines and what they're trying to do, and Fitbit is now part of the Google portfolio, I believe there's an acquisition in line there.

It will probably add on to that capability of -- if you see desaturations in the oxygen. There's a higher likelihood. There's other causes potentially of those desats but there's a higher likelihood of sleep apnea. So I would call it more in the medical terms a screener that will then hopefully identify and engage a person that maybe I have a sleep issue, maybe I have a breathing issue and indicate to them, they need to get on to the true diagnostic pathway. And then we can sort of bring them into the identification, engagement, enrollment, capability we're trying to perform. But look, Jim,



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you run the global sleep business, any further detail you think about some of these tech companies and the ability for them to identify more patients?

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**James R. Hollingshead** - *ResMed Inc. - President of Sleep Business*

Sure. Yes, Mike, thanks for the question. I think it's an unreserved good, then companies like Fitbit are putting in place technologies to help consumers understand how they're sleeping and whether they might have any disorder. And we know that there is 936 million people globally who suffer from sleep apnea and the vast majority of them don't know it. And forever in the industry, one of the bottlenecks has been driving awareness on the one hand and then making objective screening and then diagnosis, on the other hand, easier. And so when companies like Fitbit, there's a whole range of companies that are now doing something like that in the space. When they decide to put that in consumers' hands, that's fantastic for us. And for those patients more importantly.

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**Michael J. Ott** - *Oppenheimer & Co. Inc. - Associate Analyst*

Great, thanks Mick and Jim.

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**Operator**

Your next question comes from the line of Anthony Petrone from Jefferies.

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**Anthony Charles Petrone** - *Jefferies LLC, Research Division - Healthcare Analyst*

So maybe just 2 quick ones. One, just on local manufacturing, just given bushfires, obviously, in Australia. So any update just on that manufacturing plant? And then just one on legislation in the U.S., H.R.2771, just to maintain the 50-50 blended rate in rural areas. Is there any update on actually where that sits and the likelihood that it gets to congress this year?

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

Thanks for the questions, Anthony. I'll ask Rob to answer the first one around manufacturing and then Dave to answer the second one around the HR.

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

Yeah, thanks, Anthony. As we've said, the ResMed supply chain is configured around multiple sources. At this stage, most of our manufactured products come from our Singapore plant. Though we have full capability in the Sydney plant that does often focus on newer and more complex products, but we have full process capability in both plants.

The fire season in Australia has been devastating however, it hasn't actually gone into the outskirts of Sydney, which would actually make the whole thing a lot worse if it did. And to date, we haven't seen any interference we said at all. But if there was interference, it wouldn't overly affect us because of our ability to reconfigure.

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**Anthony Charles Petrone** - *Jefferies LLC, Research Division - Healthcare Analyst*

Thank you.



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### Operator

Your last question...

**David B. Pendarvis** - *ResMed Inc. - Chief Administrative Officer, Global General Counsel & Secretary*

And as to the -- I'm sorry. Let me just keep going here. Just as to the bill. I mean, we certainly support that bill. Again, we think it's important that our customers receive the appropriate reimbursement and particularly in rural areas, it's difficult to do that. So we certainly support 2771. I think it's -- you may have noticed, there's a lot going on in Congress these days. So it's a little difficult to get anything through. But there is an opportunity in the middle part of the year when I think some of the Medicare extenders come up for renewal. That there could be a push to get this along with some of the other items, the industry supports in place. So we'll have to wait and see, but we certainly support that. At a minimum, Congress indicating their support for the industry is positive. .

**Anthony Charles Petrone** - *Jefferies LLC, Research Division - Healthcare Analyst*

Thanks.

### Operator

Your last question comes from the line of David Bailey from Macquarie.

**David Bailey** - *Macquarie Research - Research Analyst*

Hi guys. Just following up on Saul's question actually. Just wondering if you're able to quantify the contribution of those acquisitions to U.S. and America's mask and accessories revenues for the quarter, that would be helpful?

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

Yes, I said in the prepared -- thanks for the question, David. I said in the prepared remarks, it's the -- so if you take that sort of global mask growth rate of 16% and you take out Propeller software, you're going to be in the mid-teens. So maybe 100 basis points or something on Global. And if you take the U.S. growth, where all the -- pretty much most of the propeller software, the U.S. growth on masks, was 19% on a constant currency basis. If you take out Propeller and the software, you're about 200 basis points, probably around 17% growth in the U.S. territory. So 16% becomes around 15% and 19% would become around 17%.

David, I think that answers both of your questions. And thanks to everyone for spending an extra 8 minutes as we were 8 minutes delayed due to the phone lines there, but appreciate that all.

### Operator

And there are no further questions at this time. I turn the call back over to Mick Farrell.

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

Great. Thanks, Christine, and thanks again to all of our shareholders for joining us on this call. I'd also like to take the opportunity to thank the 7,500 Resmedians, many of whom are also shareholders. For their dedication and hard work, you produce these great numbers that we get to report. You help people sleep better, you help people breath better, you help people live better lives outside the hospital in 140 countries, which is pretty amazing.

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Thanks for all that you do today and every day, and we'll talk to all of you again in around 90 days. Amy?

**Amy Wakeham** - ResMed Inc. - VP of IR & Corporate Communications

Great. Thank you all again for joining us today and to echo Mick. Thanks for bearing with us through the audio difficulties. If you do have any questions or additional questions, please don't hesitate to reach out. As previously mentioned, all the documents, along with the transcript and, hopefully, a clean replay of today's call will be available on our website.

Christine, you can now close the call.

### Operator

This concludes ResMed's second quarter of fiscal year 2020 earnings live webcast. You may now disconnect.

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