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RMD.N - Q1 2023 Resmed Inc Earnings Call

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OVERVIEW:

Co. reported 1Q23 group revenue of \$950m, non-GAAP net income of \$222m, and non-GAAP diluted EPS of \$1.51.

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PRESENTATION

Operator

Hello, and welcome to the ResMed First Quarter Fiscal 2023 Earnings Call. (Operator Instructions) As a reminder, this conference is being recorded.

It's now my pleasure to turn the call over to your host, Amy Wakeham, Vice President, Investor Relations and Corporate Communications. Please go ahead, Amy.

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

Great. Thank you, Kevin. Hi, everyone, and thanks for joining us. This call is being webcast live and the replay will be available on the Investor Relations section of our corporate website later today, along with a copy of their earnings press release and presentation, which are both available now.

Joining me on the call today are Chief Executive Officer, Mick Farrell; and Chief Financial Officer, Brett Sandercock. Mick will provide a brief high-level overview of our financial results. He'll review progress towards our ResMed 2025 strategic goals and discuss the current state of things as we continue to navigate the ongoing macro industry and supply chain challenges. Brett will then review our financial results in more detail. And finally,

we'll move into the Q&A portion of our call. During the Q&A session, Mick and Brett will be joined by Rob Douglas, President and Chief Operating Officer; and David Pendarvis, Chief Administrative Officer and Global General Counsel.

During our call today, we will discuss several non-GAAP measures. For a reconciliation of non-GAAP measures, please review the supporting schedules in today's earnings release. And as a reminder, our discussion today will include some forward-looking statements, including, but not limited to, expectations about our future operating and financial performance. We believe these statements are based on reasonable assumptions. However, our actual results may 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'd like to now turn the call over to Mick.

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

Thanks, Amy, and thank you to all of our stakeholders for joining us today as we review results for the September quarter, our first quarter of fiscal year 2023. These financial results demonstrate solid performance across our entire business, driven by strong sales growth in the Americas region as well as ongoing high demand for our sleep and respiratory care devices and mask systems worldwide.

Achieving these numbers hasn't been easy given supply chain constraints, but we are powering ahead focused on the long term. Of course, we see the same macroeconomic challenges that many other industries are also facing as well as an industry-specific issue of a competitor-driven supply-demand imbalance the past 18-plus months, resulting in excess demand for our products.

The good news is this. Our global ResMed team demonstrates over and over again their incredible ability to pivot and to solve problems, to support customers and to meet the needs of people around the world with market-leading therapies and software solutions.

We are building on the success we achieved last quarter with our reengineered AirSense 10 Card-to-Cloud device. Customer acceptance has been strong, particularly in the United States region, and this has enabled us to substantially increase shipping volumes to support patient demand while we continue to fight through global supply chain challenges.

It is interesting to note that outside the U.S., we are not seeing the same magnitude of adoption of the AirSense 10 Card-to-Cloud device as we are in the U.S. This is due to the fact that our 100% cloud connectable platforms, such as AirSense 11 and others, and our ecosystem of software solutions are so embedded into the workflows of health care systems. This is particularly evident in countries where we have partnered to develop digital health reimbursement models.

Customers in countries such as France and Japan and beyond, prefer to work with the limited product flow of our 100% cloud connectable devices rather than change their workflows for Card-to-Cloud models. While this means that some patients will have longer wait times in these regions, it does show the power of our long-term digital health strategy, lowering labor costs, improving efficiency and improving patient outcomes are just too hard to switch from.

Nevertheless, on a global basis, the redesign and launch of the Card-to-Cloud device have greatly improved our ability to get closer to meeting the incredible demand in the market. AirSense 10 Card-to-Cloud provided meaningful growth for the quarter. And far more importantly, it meant that patients could get access to a world-leading ResMed device to treat their sleep apnea. Clearly, launching this platform to address the spiking demand was and is the right decision.

Our #1 priority will always be patients, doing our best to help those who need treatment for sleep apnea, chronic obstructive pulmonary disease, respiratory insufficiency due to neuromuscular disease, obesity, hypoventilation syndrome, asthma and all those who need access to our out-of-hospital health care systems. Our goal is to ensure that patients get the care that they need, where they need it and when they need it.

We continue partnering with our global supply chain to increase access to the critical components that are needed to accelerate production of our medical devices. Last month, I had the opportunity to fly to Sydney and meet many of our supplier partners in-person for the first time in 3 years at our STAR Supplier event in Sydney. STAR is an annual celebration of our partnership with top suppliers.

The event was also an opportunity to bring the ResMed story to life for our critical suppliers focusing on the life-saving importance of what we do every day. We showed our suppliers that increased component allocation for ResMed ultimately benefits patients, providers, physicians and all of our stakeholders worldwide. Supplier feedback from the STAR event was overwhelmingly positive and many attendees commented how the event helped them to better understand our strong patient focus here at ResMed as well as our commitment to product quality and the patient-driven need for them to increase supply to ResMed.

As a consequence of these partnerships, our suppliers are responding positively, and I can share this, we expect steady increase in ResMed's device production each quarter throughout this fiscal year and beyond.

Let me now review updates on ResMed's top 3 strategic priorities. Number one, to grow and differentiate our core sleep apnea and respiratory care businesses; number two, to design, develop and deliver market-leading medical devices as well as digital health solutions that can be scaled globally; and number three, to innovate and grow the world's best software solutions for care delivered outside the hospital and especially in the home.

The launch and acceptance of our next-generation device platform called AirSense 11 continues to go very well. Patient feedback remains very positive, and we continue to see very strong adoption of our myAir patient app. In fact, more than -- it's more than doubled the adoption rate of MyAir with the AirSense 10 platform, with over 60% of all patients downloading and using the app on AirSense 11.

We know that patient engagement in their therapy through myAir is an incredibly important part of the therapy process and the ongoing compliance ecosystem due to our clinical publications in the area. Published real-world evidence data show that we achieved 87% adherence rates when our full tech stack is used, including both myAir and AirView. Clearly, increasing production of the AirSense 11 platform remains a top priority for ResMed, and we are doing that every quarter.

Additionally, we look forward to continuing to expand AirSense 11 into additional countries as we progress throughout fiscal year 2023 and as we continue to gain regulatory approvals country by country.

A key part of our ResMed 2025 strategy is to reach hundreds of millions of patients with our respiratory care solutions, including noninvasive ventilation and life support ventilation as well as newer therapeutic areas such as cloud-connected pharmaceutical delivery solutions as well as high flow therapy offerings.

During the quarter, our ResMed team presented data at the European Respiratory Society Congress that the prevalence of chronic obstructive pulmonary disease or COPD is much higher than previously estimated. The epidemiology data presented at ERS showed that over 480 million people worldwide have COPD. This is 100 million more than previously published data.

As the global population continues to grow and age, we estimate that over 590 million people will have COPD by 2050. This represents a 23% relative increase in global COPD numbers from the baseline of 2020.

Combined with the estimated 330 million people worldwide that suffer from asthma, these prevalence figures highlight the importance of treating these chronic conditions with our respiratory care solutions.

Turning to our Software-as-a-Service business for outside hospital care, our SaaS business achieved another quarter of high single-digit growth year-on-year. The continued trend to move to lower cost and lower acuity locations for care is driving strong growth of home-based care. This is providing tailwinds for our home medical equipment and our home health software platforms provided under our Brightree brand. We continue to grow with our home care customers as they increase their utilization of our software and data solutions to improve and optimize their own business efficiencies as well as patient care, including specifically our Snap resupply offering.

Census growth in skilled nursing as well as hospice is still challenged by post-COVID patient flow recovery as well as labor shortages. One of our most innovative solutions in this space under our MatrixCare brand has been technology solutions to improve staffing efficiency, improving both staff hiring and management. As post-COVID patient census continues to improve and pent-up demand for technology investments continues to come to the market, we expect to see even more growth opportunities to sell our services and solutions to new and existing skilled nursing and hospice customers.

Last quarter, I discussed our agreement to acquire MEDIFOX DAN, the leading provider of end-to-end software solutions for nursing homes and home health customers in Germany. We are on track to close this acquisition before the end of the calendar year. This current quarter, we're in December 2022. And we remain excited about our opportunity to accelerate SaaS innovation and SaaS growth in Germany.

This is our first investment in a pure-play SaaS business outside the U.S., and we look forward to updating you as we achieve key milestones in that business over the year ahead. Our integration team is primed and ready.

I'm excited about the future of our SaaS business. It's an important part of ResMed's growth and complements the incredible software and device solutions we have in our core sleep and respiratory care businesses. We see a lot of opportunities to innovate in lower-cost, lower-acuity settings of care. We believe this is the future of health care delivery, and ResMed is the right strategic home for these growth businesses.

We are well positioned as the leading strategic provider of SaaS solutions for out-of-hospital care, and we have created differentiated value for our customers and long-term sustainable growth for our stakeholders. Bringing it all together, we are transforming out-of-hospital health care at scale, leading the market in digital health technology.

We now have over 12.5 billion nights of medical data in the cloud and over 18.5 million cloud connectable medical devices on bedside tables in 140 countries worldwide. We are liberating these data to the cloud, and we're unlocking value for patients, for providers, for physicians, for payers and for entire health care systems.

Our mission and goal to improve 250 million lives through better health care in 2025, drives and motivates me and ResMedians every day. We made excellent progress towards that inspiring goal over this last period.

During the last 12 months, we improved over 144 million lives with our device platforms, our full mask systems and our software solutions in digital health. We're helping people sleep better, helping people breathe better and helping people live higher quality and happier lives with care delivered right where they live.

So before I hand over the call to Brett for his remarks, I want to once again express my gratitude to more than 8,600 ResMedians for their perseverance, their hard work and their dedication today and every day. Thank you.

With that, I will hand the call over to Brett in Sydney for his remarks, and then we will open up to Q&A with Brett, me and the gang. Brett, over to you.

Brett A. Sandercock - ResMed Inc. - CFO

Great. Thanks, Mick. In my remarks today, I will provide an overview of our results for the first quarter of fiscal year 2023. Unless noted, all comparisons are to the prior year quarter.

We had strong financial performance in Q1 despite the headwinds we faced as a result of significant ongoing supply chain constraints. Group revenue for the September quarter was \$950 million, an increase of 5%. In constant currency terms, revenue increased by 9%.

Revenue growth reflected increased demand for our sleep products across our portfolio and ongoing device demand generated by our competitors' product recall. Year-on-year movements in foreign currencies, in particular, a weaker euro, negatively impacted revenue by approximately \$36 million this quarter.

While we continue to experience ongoing challenges in securing sufficient production components to meet market demand, we are now seeing a more predictable supply chain environment. This gives us confidence around our expectation of increasing device production in fiscal year '23 relative to fiscal year '22.

Looking at our geographic revenue distribution and excluding revenue from our Software-as-a-Service business, sales in U.S., Canada and Latin America countries increased by 18%. Sales in Europe, Asia and other markets decreased by 6% in constant currency terms.

By product segment, globally in constant currency terms, device sales increased by 9%, while masks and other sales increased by 8%.

Breaking it down by regional areas. Device sales in the U.S., Canada and Latin America increased by 23%, as we benefited from incremental revenue derived from the introduction of our Card-to-Cloud device. Masks and other sales increased by 11%, reflecting solid resupply revenue achieved despite the challenging device supply environment, which continues to limit new patient setups.

In Europe, Asia and other markets, device sales decreased by 10% in constant currency terms, mainly as a result of the ongoing challenges in securing sufficient production components for connected devices and lower sales of higher acuity devices relative to the strong sales we experienced in the prior year quarter. Masks and other sales in Europe, Asia and other markets increased by 3% in constant currency terms.

Software-as-a-Service revenue increased by 9% in the September quarter. We saw particularly strong performance from the HME vertical as customers continue to utilize our SaaS solutions to streamline and more efficiently run their businesses.

During the rest of my commentary today, I will be referring to non-GAAP numbers. We have provided a full reconciliation of the non-GAAP to GAAP numbers in our first quarter earnings press release.

Gross margin increased by 40 basis points to 57.6% in the September quarter. The increase is predominantly attributable to increases in average selling prices, partially offset by unfavorable product mix and foreign currency movements.

Moving on to operating expenses. SG&A expenses for the first quarter increased by 10% or in constant currency terms increased by 16%. The increase was predominantly attributable to increases in employee-related costs and a post-COVID normalization of travel and entertainment expenses. SG&A expense as a percentage of revenue was 20.4% compared to the 19.5% we recorded 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 20% to 22% for fiscal year '23.

R&D expenses for the quarter increased by 5% or in constant currency terms, increased by 9%. R&D expenses as a percentage of revenue was 6.6%, consistent with the prior year quarter. Looking forward and subject to currency movements, we expect R&D expenses as a percentage of revenue to be in the range of 6% to 7% for fiscal year '23.

Operating profit for the quarter increased by 4%, underpinned by strong revenue growth and improvement in gross margin, partially offset by higher operating expenses. Our effective tax rate for the September quarter was 19.8% compared to the prior year quarter rate of 20%. Looking forward, we estimate our effective tax rate for fiscal year '23 will be in the range of 19% to 21%.

Our net income for the quarter was \$222 million, and non-GAAP diluted earnings per share was \$1.51, both consistent with the same period in the prior year. Note year-on-year movements in foreign currencies negatively impacted earnings per share by approximately \$0.07 this quarter.

Cash flow from operations for the quarter was \$45 million, reflecting solid underlying earnings offset by higher levels of working capital. Capital expenditure for the quarter was \$29 million. Depreciation and amortization for the quarter totaled \$36 million.

During the quarter, we paid dividends to shareholders totaling \$64 million. We recorded equity losses of \$2 million in our income statement in the September quarter associated with the Primasun joint venture with Verily. We expect to record equity losses in the range of \$3 million to \$5 million per quarter through the balance of fiscal year '23 associated with the joint venture operation.

We ended the first quarter with a cash balance of \$207 million. At September 30, we had \$795 million in gross debt and \$588 million in net debt. Our debt levels remain modest. At September 30, we had approximately \$1.4 billion available for drawdown under our revolver facility.

In summary, our liquidity position remains strong. Our Board of Directors today declared a quarterly dividend of \$0.44 per share. As reported last quarter, we expect to close on the MEDIFOX DAN acquisition by the end of the calendar year pending regulatory clearances. Additionally, we plan to continue to reinvest in growth through R&D and also expect to further deploy capital for tuck-in acquisitions.

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

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

Great. Thanks, Brett. Kevin, I'd like to call you back on to the call and turn it over to you to provide the instructions and run the Q&A portion of the call.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question today is coming from Steve Wheen from Jarden.

Steven David Wheen - Jarden Limited, Research Division - Analyst

Just looking at working capital, this one for Brett. We saw the levels of inventory continue to increase. Just wondering how you're going to think about managing Card-to-Cloud inventory levels at a time or as your supply chain starts to free up a little bit more to allow you to make more AirSense 11. Just trying to work out whether there's any risk around inventory obsolescence as you try and transition back towards your latest platform?

Brett A. Sandercock - ResMed Inc. - CFO

Yes. Steve, I think at the moment, the market is very much characterized by really excess demand. So we're still trying to meet that, and I think that's going to be with us for a while. So we're building inventory really looking at that kind of future production that we're looking to manufacture. And then we'll manage -- we've introduced Card-to-Cloud, been very successful, particularly in the U.S. market. So that's part of our portfolio. It's important. But we certainly have the plans where I think we can manage that transition between Card-to-Cloud and connected devices as we get more of those components in.

So I think it will be kind of a managed plan that will move from manufacturing the Card-to-Cloud to more connected devices as the electronic components come in. But we've got -- we have plans in place to do that and make that transition.

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

If I could, Steve, just to add that inventory build that we've had is really a deliberate outcome of our strategy around managing the supply constraints where we've had to really build up the materials components inventories for everything so that we could build the maximum when we break through the bottlenecks on the specific components. And then as the supply chain situation improves into the future, we'll be able to wind back from that.

Operator

Next question is coming from Matthew Mishan from KeyBanc.

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

Just a follow-up on the mask growth. I think you said at one point in the call, that mask growth is still being affected by the lower patient setups. I mean with Card-to-Cloud, was that an OUS comment, a global comment or is that still an issue with the U.S. where we're still below the patient setup?

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

Yes. Thanks for the question, Matt. I mean if you look at the mask growth numbers in the quarter, we saw 11% growth in U.S., Canada and Latin America. So really strong double-digit growth there and 3% in Europe, Asia and Rest of World with a total global growth of 8%. 2019, we talked about market growth being mid-single digits for devices and high single digits for masks. So we're right there at 8% total growth. But I actually think we could be higher than that if we -- we're taking care of every new patient that's out there.

As we said and as I said in the prep remarks, with our competitor out of the market these last 12, 15 months, at least can be 18 months, maybe 24 months out of the market in total. They were the #2 player. And we are the #1 player, and we're taking as much of the #2 excess demand as we can. But we're not getting all of it. Still, even with Card-to-Cloud in the quarter, we weren't getting to every patient that needed a device. And so that delta is what we're talking about, that mask growth could have been even higher.

But to your point, because Card-to-Cloud acceptance was so much better in the U.S., we did get better mask growth there. We saw 11% growth in the quarter and very strong. Yes, Card-to-Cloud, as I said in the prep remarks, not being taken up in countries where the whole reimbursement model has changed around digital health and cloud-connected devices such as France and Japan. And it's just structurally difficult, and they don't want to switch from the great efficiencies and outcomes that we get with our 100% cloud connectable systems. So that's sort of the nuance around that.

What it talks to is an opportunity to continue to grow our device business, but to even further increase our mask growth, not only in the U.S. but also in Europe, Asia and Rest of World. Thanks for the question, Matt.

Operator

Next question today is coming from Gretel Janu from Crédit Suisse.

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

So how are you allocating your AirSense 11 here between U.S. and rest of world, given that the U.S. is adopting the Card-to-Cloud. So are you giving greater AirSense 11 to rest of world relative to what you historically had the mix between the 2 regions?

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

Yes, Gretel, it's a great question. It's a very complex one. And we've actually established -- during the COVID crisis on ventilators, we established a global epidemiology model, a humanitarian-based epidemiology model where we really looked at the flow of the virus around the world and where we should allocate limited supply of ventilators for that. And I think we did a really good job in that crisis of 2020.

We applied those same skills really these last 12, 15 months of having a global team looking at the 140 countries we operate in, looking on a humanitarian basis, as the needs for people who are suffocating now in our core market, suffocating with sleep apnea and other -- on the AirSense 10 platform, we do have other respiratory care and respiratory insufficiency capabilities as well and the AirSense 10 connected devices on buy levels.

So we have a global model. We look at allocations based on the demand on patients and the need to get them there. It's a complex and moving dynamic equation. The latest moving apart in it is that AirSense 10 Card-to-Cloud has been coming out the gate incredibly strongly in the June quarter. We talked about 90 days ago and here in the September quarter, and we expect that to continue. That may mean increasing some AirSense 11 allocation to places like France or Japan, where they aren't seeing the same adoption due to the changes there. So it's an ongoing dynamic thing that we look at daily, weekly, monthly in our production, shipping and delivery schedules.

So it's not a simple equation. But yes, the impetus of your question was would we look to the humanitarian need and do our best to make sure that device gets to a patient fairly, and that's exactly what we're trying to do on a global basis. It's not simple. It's quite complex, but we're working at it every day. And the team is doing an incredible job, as you saw in these great growth numbers. Thanks for the question, Gretel.

Operator

Next question today is coming from Saul Hadassin from Barrenjoey.

Saul Hadassin - *Barrenjoey Markets Pty Limited, Research Division - Analyst*

Mick, we've seen a lot of data breaches in the last few weeks, including in the health care space. And on the basis of how much data you guys have access to, just wondering if this has caused you to have a look again about data accessibility and risks associated with potential data hacks and just what your thoughts is on -- thoughts are on the strength of protection that you have. How do you actually protect against something that is happening in the future?

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

Yes. So, it's a great question. And obviously, cybersecurity is something we think about all day and every day, and our Chief Information Security Officer and his team are what I would call productively paranoid about the 12.5 billion nights of data and the 18.5 million 100% cloud connectable medical devices out there in 140 countries. And I did see the news in Australia of a number of health care system hacks. And we've had them here in the U.S. as well, United had one and a number of local health care systems have it as well as some infrastructure areas.

Look, it's a case of productive paranoia. You have to be investing in this space. You have to be looking at what happened doing root cause analysis of the hacks that have happened. In almost every case, it's been a human, a person clicking on something and giving allocation. And so we're looking very carefully at our training and holding back systems from -- and fixing systems where there are weak links and making sure that all day, every day, you're looking at this because, yes, people are out there.

Initially, hackers went to consumer tech and fintech industries. As you said, health care is on their radar. We're probably third on the radar, but we're definitely there. And it's something that we think about and we invest a lot in our cybersecurity protections. But it's an ongoing game of investments and making sure that we stay at or ahead of the curve and how we work with our partners in the health care system to make sure that the data -- we look at privacy as well as cybersecurity and interoperability. Those 3 have to all be balanced, but cybersecurity is right there as one of our core competencies right now, and we invest a lot in that area. Thanks for the question, Saul.

Operator

Next question is coming from Dan Hurren from MST Marquee.

Dan Hurren - *MST Marquee - Healthcare Analyst*

Look, I just want to ask about sea freight and air freight. You previously talked about some degree of inventory builds that might shift away from air freight and back to sea freight. And we've seen other market participants already do that to some degree. I just want to ask where you are on that transition and what sort of impact it has on margins?

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

Brett, do you want to have a go on that?

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

Yes. Sure. Yes, Dan, Yes. I mean we've moved -- we were almost exclusive if I'd moved some to sea freight and so that's happening. It's probably -- it's progressive and probably measured because we still want to get inventory to our DCs and then obviously on patients. So we're just trying to balance that. But we have started progressing that to sea freight. So that's happening.

Again, we're probably seeing -- we're seeing a little bit of relief or moderation in those kind of freight rates that are coming through. It will take a little bit of time for that to wash through for us. But I still think in the second half, we'll start to see some benefit from some kind of overall freight costs coming down relative to last year.

Operator

Your next question is coming from Mike Matson from Needham.

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

Yes. I guess just on the international side of the business was quite a bit weaker than the North American side. And I think you commented on the Card-to-Cloud not seeing as much uptake, but I just wanted to see if that was really the primary issue there. Was there anything else going on? Any kind of economic challenges in any of the OUS markets?

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

Yes. Thanks for the question, Mike. And really, truly, the major component is getting Card-to-Cloud in those areas. If Card-to-Cloud had the same adoption in Europe, Middle East, Africa and Rest of World as it did within the U.S., Canada, we would be seeing significantly higher device growth numbers. And so that's -- it's item #1 on how we can address that.

And actually, in countries where there's no reimbursement models and others, we are pushing towards those Card-to-Cloud as well as increasing, as I said earlier, to Gretel's question, the flow of AirSense 11. One other thing that Brett did note in his prepared remarks was that this quarter a year ago, Europe saw very high sales of ventilators. Some of that was in the COVID space and in the response to some recalls from a competitor space around ventilators in Europe where ventilators, respiratory care is a larger portion of our European business than it is in the U.S. And so that was in the comp on the other side.

So those are the 2 main factors that were there. Card-to-Cloud adoption and year-on-year with regard to our noninvasive ventilation, life support ventilation and whole respiratory care business, if you like, in Europe was just a bigger portion of the business there. But thanks for the question, Mike.

Operator

Next question is coming from David Bailey from Macquarie.

David Bailey - *Macquarie Research - Analyst*

Yes. Brett, you sort of mentioned some of the constraints to set up from component shortages in a competitor recall. Just interested in your thoughts on that patient backlog. If you've got any estimates as to how many patients do you think could be waiting for a device, how long it will take to work through? And what that might mean for industry growth relative to that mid-single-digit number you sort of talked to previously.

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

Well, look, I'll have a go at that first, David. Thanks for the question. Brett, please and Rob and Dave pile on. Look, there's excess demand that's out there with your #2 player in a highly competitive market being out of the market for 15 months now, and they say they may be back in January, but I'm not optimistic that they'll actually be back given all the issues that are there for them.

And so we look at that and say, let's do as much as we can towards this. We know we are not getting there. When we know the size of the market, we know the total flow of patients. We know what our #1 share was, how it's grown, and we're taking care of all of that. We know what their #2 share was and how that's grown, and we know we're taking a high double-digit percentage of that, but not all of it. We're not at 100% of it. And so we know there's that gap to fill, which is excess demand.

Yes, it does build up to a pipeline -- a great pipeline of patients that are out there. But on the downside, it's tough for those patients because wait times go from days and weeks to weeks and months and from months to quarters in some regions. And so that's why we are and have pivoted for this redesign and reengineered AirSense 10 Card-to-Cloud. It's why we are redesigning parts and pieces within our AirSense 11 and our AirSense 10 connected devices. And we're ramping up all 3 of those.

So if you put it together, we have the #1 product in the market, the best product, which is the AirSense 11. We then have the #2 best product, which is the AirSense 10 fully connected. And we have the #3 best device, which is the AirSense 10 Card-to-Cloud. And we're selling all 3 and ramping up all 3 throughout our Sydney, our Singapore, Atlanta and European distribution centers. And so we're doing the best we can. It'd be very difficult -- I mean we do have a lot of quantification on it, but for competitive reasons, I don't want to go out to exactly what we're looking at. But the timing of how we feel it is dependent upon how fast we get the components and parts and pieces into our Singapore plant and beyond. And those every day, they get better.

I said in the prep remarks, that every quarter this year, we're going to make more and more of the AirSense 10 Card-to-Cloud, we're going to make more and more of the AirSense 11. You've seen that. We delivered in June. We delivered in September. We will deliver again in December. We'll deliver again in March '23. We'll deliver again in June '23. And so every quarter, we'll give you the update on it.

But I almost don't want to quantify it on a time basis because we know what it is on a device basis, I want the time to get shorter and shorter as ResMed accelerates faster and faster towards getting that excess demand and making sure our supply can get us close to meeting it. And then when we meet it, we can then get back to a balanced inventory situation.

Operator

Next question is coming from Matt Taylor from Jefferies.

Unidentified Analyst

This is [Zack] on for Matt. I was just curious if you could give some color on supply chain improvement on a quarter-over-quarter basis? And any color on how you can reach full capacity over the next couple of quarters.

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

Rob, do you want to have a go at that?

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

Sure. Thanks, [Zack]. Yes, Mick was talking before around the quarter-on-quarter, and we're talking device volumes there. And you heard Brett's earlier comment saying we're sort of seeing a stabilizing view of the supply chain. And what had happened in the past was that you think you had a plan, but then these decommits had come through. Now we're definitely seeing a big reduction in the rate of decommits. They're not fully gone. And so there is that sort of still some uncertainty in exactly which products we can deliver on what day because some of the commits can come at -- come out.

Other things that are going to help us going forward is that the engineering projects that Mick talked about, including validating new component -- new communications modules. And recall, we're in an environment of the economy and consumer products. It looks like the demand, the excess demand of phones and those types of devices is moderating a bit.

The excess demand that autos were creating isn't moderating as far as we can see, and that's still very significant. And in fact, the technologies that we use are more likely to be the types of things in autos than in phones. So there is still some sort of industry pressure on the chip components, but as our engineering projects develop and we get more options validated, we have more likelihood of increasing that volume.

And so what we're saying is we're actually producing a huge amount more devices now than we were, say, before the pandemic or even before the competitive recall happened. And our plans, if we can follow it, you can see in our inventories, we've got the parts for it. If we get the final parts in, we'll absolutely keep driving these volumes. And there's risk to the upside. We haven't completely eliminated risk to the downside but we're pretty confident that we're in good shape.

Operator

Next question today is coming from Lyanne Harrison from Bank of America.

Lyanne Harrison - *BofA Securities, Research Division - VP in Global Equity Research*

Just following on that question about how long your competitor might be out of the market. If that gets delayed or pushed out up to 24 months, do you think ResMed will be -- have enough production volume as we think about third quarter fiscal and fourth quarter fiscal, enough volume to meet the gap that Philips has left? And then also, last quarter, you also spoke about some of your demand generation initiatives. Are you at a point now in terms of your visibility on production that you're implementing some of those demand generation initiatives?

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

Thanks, Lyanne. It's a really good question with sort of 2 elements to it. One, that's difficult for me to determine because it requires knowledge of the U.S. government from FDA and DOJ and a consent decree with a competitor that I'm not involved in those conversations. I see what we all see publicly out there. And so how long our competitor will be out, we don't know. But we run scenarios on that, right, but they'll come back in January, they come back in July, they'll come back later than that in 2023.

And as I look at that, I think about our ability and what we can do in every quarter, we're going to increase production of AirSense 10 Card-to-Cloud, AirSense 10 [coms], AirSense 11 coms. And so if I track those lines up and move them up, there are scenarios where we can get to the full industry demand in calendar year 2023. A lot of things have to come together for that to happen. And there's a lot of scenarios, as Rob said, around parts and pieces coming in and on the other side. But we're doing everything we can to get closer and closer to that.

I -- so yes, I mean, we can strive towards it, and we're going to move towards it. And we want no patient left behind. We want anyone who suffocates and gets a prescription to have a short wait time no matter what country they're in to a ResMed device and we're doing everything we can to keep up with that excess demand. It will be there for the next 3, 6, 9, 12 months. But as you start to look through 2023, I think, yes, potentially the supply and demand curves could cross over for us and the other players in the industry as well. So how long -- there's a number of scenarios around that, as I discussed.

Second part of your question, demand gen initiatives. Yes, we have some really exciting demand gen initiatives from our Asia, Latin America team, the work that we're doing in China and in India and Brazil. These huge population markets to look at different methods of getting to patients and ensuring that care is delivered across socioeconomic bounds and there's health equity and the delivery of our products in these high-growth markets or some really exciting things Justin Leong and his team are driving in our Asia, Latin America demand gen initiatives.

And then here in the U.S. market, we've got some really exciting work in our joint venture with Verily called Primasun. I just ran into the CEO of Primasun there at the med tech conference this week in Boston. And there's some really exciting milestones that we'll be looking at throughout calendar year 2023 to drive demand gen to identify, engage and enroll patients.

Actually, sleep concern consumers to a pathway to become patients. And so those will start to roll out during the year. In addition, our Western European and Northern European teams and our teams across the world have really exciting programs that, frankly, we've been experimenting and piloting on during the COVID crisis, the embracement of digital health, the embracement of respiratory health, the embracement of care delivered outside the home during the COVID crisis. And actually, during our competitive recall crisis, I think we've seen an ability for us to partner even more closely with our partners in the channel physicians and providers are willing to experiment even more.

So I do expect us to turn on a number of these demand gen initiatives throughout calendar year 2023 as we start to get supply up to where demand is and then can drive core demand of the market back again through that demand gen. So great question, Lyanne, and thanks for that.

Operator

Next question is coming from Craig Wong-Pan from RBC. (Operator Instructions)

Craig Wong-Pan - RBC Capital Markets, Research Division - Director of Equity Research & Equity Research Analyst

Sorry about that. The -- I think there's been some changes with some of the expectations for cost loans like R&D, I think, is now -- it's like to be 6% to 7% of sales versus previously 7% to 8%. And then the Primasun joint ventures, the losses have increased as well. Could you just talk about what's led to those shifts in expectations?

Brett A. Sandercock - ResMed Inc. - CFO

Yes, sure. I'll take that, Mick.

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

Brett, I think that's a great question for you.

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

Yes. Thanks. Yes. On the R&D, it's just uptick slightly lower. But a lot of that has to do with the weaker Australian dollar. As you know, we've got a decent amount of R&D undertaken here in Australia. So it kind of reflects the lower currency there, Craig. It's not -- it doesn't -- will still be -- have the same number or more people in R&D and working on that. But obviously, the translation impact is going to be felt as we forecast forward. So that's on the R&D side of things. And your other question?

Craig Wong-Pan - *RBC Capital Markets, Research Division - Director of Equity Research & Equity Research Analyst*

The Primasun joint venture has increased...

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

Yes, the Primasun, yes, Mick -- yes, sort of Mick mentioned that some of the milestones, some of the activities that you're undertaking. So they will look to invest or fund more of those demand gen activities as they kind of move into a more commercializing phase. So that's going to uptick, I think, over the next few quarters. Our share of those costs essentially. So that's why I guided that to be a little bit higher over the next several quarters.

Operator

Next question is coming from Chris Cooper from Goldman Sachs.

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

Can I ask one on the outlook for pricing? We heard some pockets of feedback late in the quarter that at least one of your competitors is beginning to price more aggressively on masks. Are you seeing that feed through yet? If you do sort of begin to see a more competitive price environment, how would you envisage responding to that?

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

Yes. Thanks for your question, Chris. And certainly, pricing is a big topic always in our industry over these last 12 months as inflation around the world has moved from low-single digits to mid-single digits to high-single digits in almost every country we're in, that we've started to respond to that. And as shipping costs have gone up, we've started to respond to that. As you know, at the start of this calendar year, we instituted some surcharges on products in the U.S. and on Europe for those extra costs that were associated with shipping.

And then we have, as appropriate, working with customers and within the health care systems increased prices on specific parts and pieces where the costs for us have gone up. And so therefore, we're sharing some of that burden of increased costs with our channel.

In terms of -- while appreciating your channel check in the conversation with a customer or 2, I -- we are not seeing across the board major changes in ASPs on either the device or the mask side. It's interesting to note that with our really strong growth of masks, they're 11% in the quarter in U.S., Canada and Latin America. That's in a market where there's no recall from anybody. That's just the standard competitive market, and ResMed is out there fighting for it even with the lower flow of new patients, as we talked about earlier, due to the fact that not every patient who needs a new setup is getting it even though the vast majority of those sales are repeat sales to customers already in our installed base of amazing people being treated every day by ResMed masks.

So not a huge sort of impact on pricing right now. If anything, prices are stable to slightly up on devices, and I would say stable in the mask side sort of in line with where they have been. And so no major changes there. Obviously, we watch that. It's a dynamic approach, but we don't focus on price, we focus on value. We talk about how the first time fit with ResMed is where it's at and how the adherence rates are where they are and the mask league is much lower. And customers know that and they track that. And we give them data in AirView in myAir and give them all analytics to know how well our masks are doing compared to the competitors. And that's why the doctors prescribe our masks and it's why the HMEs and home care providers around the world choose our masks.

So we compete on value, not price. And we look forward to increased competition and increased growth in both the device and mask side. We love a competitive market, and we tend to win in it.

Operator

Next question is coming from Suraj Kalia from Oppenheimer.

Suraj Kalia - Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst

So Mick, you mentioned about taking most of the excess demand share. Maybe if I could ask my question a little differently, Mick. So let's say we use 3 buckets. Patients either remain on Philips, patients switched to ResMed or the third bucket that patients are left to fend on their own, right? Let's just assume these 3 buckets. How would the pie charts of existing patients versus new patients coming into the funnel look like? Just trying to understand at a very simplistic level, where are we in the share transfer and what is happening to these patients?

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

Yes. Thanks, Suraj. And I appreciate the angle you're coming out on it. Let me give you my thoughts on it and address your question from this angle. So I'll put it -- I'll say there's 2 buckets. There's new patients and then there's patients getting what we call [reap] or a device that's 5 to 7 years old, let's say, it's out of warranty maybe, 3 to 5 years and they want to upgrade. And then there's a third bucket of patients who are part of the competitive recall.

So the first bucket, which is new patients. Yes, look, there's ResMed and a bunch of small share players competing all day, every day for those new patients and incredible excess demand and every product we make, we can sell into that space. And we are doing very well and taking a lot of share, as you see in the numbers. 23% growth in devices in U.S., Canada, Latin America, 9% growth worldwide in that category of devices. So doing incredibly well in that new patient's bucket.

If you look at the existing patients that are looking to repap, right, after 3, 5 or 7 years on therapy, I think some home care providers and HMEs in Europe and rest of the world won't be contacting those patients right now. They know the situation. They don't want to get somebody into the channel where the wait times are long. And so I think there's some opportunity for even further excess demand in that second bucket of existing patients looking to repap that haven't been turned on. It's another type of demand gen to Lyanne's question earlier that our channel probably is not turning on much and keeping that dial very low, except for those patients who come and say, look, I really need an upgrade, then they put them in the queue. That's the second bucket.

The third bucket is the 5.5 million patients who are on a competitive device from the recall that was announced June a year ago. Our competitor, that's their duty and they are working through those. They're not there. They say they're maybe 3 million into the 5 million. I'm skeptical of that. I think they're talking about production numbers versus delivered numbers. As I look to the channels and speaking to people about how many of the devices that they've asked for have actually been received for as part of that recall.

So that third bucket is tough. And so what does the patient do there? Do they just wait? Or do they go get a prescription and try to go sleepapp.com or easybreathe.com or some other retail channel in a different market and try to come in and drive some excess demand that way.

It's very hard to determine all of that. We do have some numbers around it. But that third bucket is really the duty of our competitor to take care of, and they're working their way through it. And it looks like it's 18 months through to December. If they get there by June next year, that's 24 months. I'd hope that they are at least there then and can come back. Again, as I said earlier, with the scenarios, we're looking at all sorts of scenarios. I want them back. I love the competitive game. I love beating them in the game of who's got the smallest, quietest, most comfortable and most cloud-connected device that lowers costs and improves outcomes. And we were doing that in 2019. Actually, from the launch of AirSense 10 in 2014 to 2019 for 5 strong years, and I look forward to continuing to do that afterwards. But that's how I'd look at it.

Three buckets, new patients are doing incredibly well. Repap, not really turning that dial right now, probably turn it on as we get demand gen. And the third one, yes, we will be getting some of that. We're not fighting for that because that's not where we want to play. That's a competitor's duty to take care of them. And we're focused for the long run. And the 1 billion people worldwide is suffocate who haven't yet been brought into the channel. That's the real opportunity. Thanks for the question, Suraj.

Operator

Next question is coming from Margaret Kaczor from William Blair.

Margarate Elizabeth Boeye - William Blair & Company L.L.C., Research Division - Research Analyst

This is Maggie on for Margaret. I wanted to ask on the mass growth specifically and just trying to get a better picture of the resupply trend. So obviously, I can appreciate the amount of new patients coming on service. But maybe if you can kind of talk about the resupply trends and what you're seeing and what we can kind of expect for the remainder of the fiscal year.

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

Thanks, Maggie. Look, it's a really good question around resupply. And as you know, looking at our SaaS business through Brightree resupply and Snap resupply, we have some really good models in our SaaS business that's truly the synergy between our SaaS business and our core sleep and Respiratory Care business. And we've got the back-end synergies around cyber securities we talked to earlier, cloud ops and interoperability, but the front-end synergies there around driving resupply have been really strong and Brightree resupply and Snap resupplier are a good part of driving that resupply revenue.

Yes. I mean, look, you saw 11% growth, right, in U.S., Canada and Latin America in those resupply. And the U.S. is primarily the market for that where there are very sophisticated models and a very strong incentive for both the patient, the provider and ResMed and actually the payer with the return that they get by reduced hospitalizations to ensure that patients continue to get new masks.

Those systems are not quite as evolved or implemented within Europe, Middle East, Africa and Rest of World and so -- and Asia Pac. We do have models, particularly where we're working directly with providers and/or patients to drive resupply models and those are working well. But look, there's a -- I would say there's a lot of opportunity to drive resupply in Europe, middle East, Africa and Asia Pacific. And if you look at Katrin Pucknat, and our team in Germany and what she's doing to engage with patients, you look at Justin Leong and what he's doing across Asia and Latin America to engage directly with patients and show them the path to get a fresh, clean new mask on a regular basis and become part of a subscription program for that. There's a lot of innovation to come.

So look, I'm proud of the 8% growth in a tough environment with new patients coming in. I want that to get higher. And I certainly want Europe, Asia and Rest of World to go from low to mid- to high single digits again. And we will get there as that resupply and the new patient flow, both come to market. So a lot of moving pieces there, Maggie. Thanks for the question.

Operator

Our next question today is coming from Mathieu Chevrier from Citi.

Mathieu Chevrier - Citigroup Inc., Research Division - Assistant VP & Senior Associate

Just a longer-term question. How do you see home testing and the Primasun JV impacting the longer-term growth rate of the industry?

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

Yes. Look, it's a great question. Home sleep apnea testing is now just part of the game. I think what happened during COVID is we were all forced to do telehealth, digital health and to embrace that across the 140 countries that we are in. And we've seen increased adoption rates of home sleep testing across the world. It's just really exciting. I mean, look, if you look at France and Germany, France, it always adopted home sleep testing and very, very good rates of that. Germany really hadn't pre-COVID now has and the physicians have seen it the home care providers have seen it, and we're vertically integrating that market. So we're really driving the adoption if you look at Northern and Western Europe of home sleep testing.

And I do think when and if -- I don't know when we get our supply up to where demand is, we can start to turn on those home sleep testing demand gen opportunities because, as I said earlier, 1 billion people suffocating worldwide. We've got less than 20% on treatment in the U.S., less than 10%, 15% in Europe and less than 5% in Asia, less than 1% in some of the high population countries. And so home sleep testing is a really interesting path for that.

There were some really interesting sort of viral videos. Our India team is doing a great job. They've actually got an Indian rap star to talk about home sleep testing. We saw a huge spike in the response rate and people going through that. It's really interesting with relatively low cost. These pilots and experiments we're doing with not old schooled media buying a Super Bowl ad or buying an add on Champions League, European football. We're going down to social media levels and using, I would say, very strong interesting experiments around social media marketing to drive demand gen for home sleep testing. And if you ask a person, would they prefer to be tested for sleep apnea in their home or in a hospital, 80% of people say in the home. 20% really should always go to a hospital. They have a comorbidity, history of stroke, history of heart attack, COPD, some other comorbidity or some other sleep disorder. And there are 100 other sleep disorders other than sleep apnea. They're rare, but they're there.

So we're going to ramp up home sleep testing in the U.S. with our Verily joint venture, but we're also going to do it directly with all of our home care partners across the U.S. and in the other 140 countries we do business in. So thanks a lot for the question. And I think that will be our last question. We're just running straight up. And one more question, maybe. Amy, what do you think?

Operator

Our final question today is coming from Steve Wheen from Jarden.

Steven David Wheen - Jarden Limited, Research Division - Analyst

I just wonder in response to the consent decree that Philips is in the process of negotiating. They've obviously done a very large impairment to the Respiration business. Do you have any sort of thoughts as to what they might be needing to contemplate as part of that, whether it impacts innovation, whether it impacts their ability to manufacture just if you had any high-level thoughts as to what you think that decree could look like?

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

That's a great question. I'll give some thoughts and hand to Dave Pendarvis, who's not only our Chief Administrative Officer, but also a lawyer and maybe we'll understand that. Look, you have to wait until these things come out. We haven't seen a public discussion of what the consent decree looks like. They're negotiating it now. So when that comes out, we'll look at it.

What has been public is a number of responses on that 483 and really specifically talking about culture changes, management changes and a focus on quality. The reengineering and recultural training that, that type of change requires a lot of work. And I would think people will have to move from development and R&D back to what I would call quality remediation and quality systems improvement. So there will be some sort of quality debt, if you like, that would be needed to pay back if you just read through the public information on that 483.

But Dave, what are your thoughts and perspective on this?

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

Yes, I think you've got it right, Mick. The -- there's a broad range of where this thing could land from sort of a watch and report on the one hand to almost closing down operations on the other end. And without being in the mix of either talking to the agency or talking to the company, which we can't do either one on this particular topic, it's hard to know where they're going to land in between there. But as Mick said, if you look at the public statements, which is both the 483 and also their proposal to take control of the recall, you can see the issues that the agency is concerned about. And so what they're going to want to do is get assurance that those issues are not going to put patients at risk in the future.

You've got to have systems in place not only for the products that are issued now but for other products that may be out there on the market or be brought to the market in the future. So except for the agency, obviously, it's a consent decree for a reason. It means that there is an agreement between the parties as to what those parameters will be. And until they announce it, it's really tough to speculate on what the exact details will be. But -- and as I said, there's a pretty broad range. Thanks.

Operator

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

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

Well, thanks, Kevin, and thank you to all of our shareholders for joining us on this call. I'd like to once again take the opportunity to thank the 8,600 ResMedians, many of whom are also shareholders for their dedication and hard work, helping people breathe better, sleep better and live better lives in residential medicine in over 140 countries worldwide. Thanks for all that you do. I look forward to talking with you all right here in 90 days. Thank you.

Operator

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

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