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RMD.N - Q2 2025 Resmed Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Welcome to the Q2 fiscal-year 2025 ResMed earnings conference call.

My name is Matt and I'll be your operator for today's call.

(Operator Instructions)

Please note that this conference call is being recorded. I would now like to turn the call over to Mike Ott, Senior Manager, Investor Relations.

Thank you. You may begin.

Mike Ott - *ResMed Inc - Senior Manager, Investor Relations*

Great. Thank you, Matt. Hello, everyone, and welcome to ResMed's second-quarter, fiscal-year 2025 earnings call. We are live webcasting this call and the replay will be available on the Investor Relations section of our website later today.

Our earnings press release and presentation are both available online now. During today's call, we'll discuss several non-GAAP measures that we believe provide helpful information for investors. This information is not intended to be considered in isolation or as a substitute for the GAAP financial information. We encourage you to review the supporting schedules in today's earnings press release to reconcile these non-GAAP measures with the GAAP reported numbers.

In addition, our discussions today will include forward-looking statements including but not limited to expectations about our future financial and operating performance. We make these statements based on reasonable assumptions. However, our actual results could differ. Please review our

SEC filings for a complete discussion of the risk factors that could cause our actual results to differ materially from any forward-looking statements made today.

I'll now turn the call over to ResMed's Chairman and CEO, Mick Farrell.

Michael Farrell - *ResMed Inc - Chairman of the Board, Chief Executive Officer*

Great. Thank you, Mike and good morning and good afternoon as we welcome our shareholders and review ResMed's second-quarter, fiscal-year 2025 results. I'm pleased to share that ResMed delivered another strong quarter of global top-line and bottom-line growth. We achieved excellent year-over-year performance in Q2 with solid revenue growth, improved gross margins, combined with disciplined investments in both R&D and SG&A resulting in very strong operating profit and net profit performance.

These results reflect the hard work of 10,000-plus ResMedians and our dedication to improving the lives of patients, improving the workflow of home care providers, physicians, payers, and the communities that we serve in over 140 countries worldwide.

The foundation of our continued positive performance lies in our clear market leading value proposition, including the sustainable competitive advantage that we have established with our best-in-class hardware and software products as well as our digital health ecosystem. Through cloud connectable medical devices, masks, and accessories as well as digital platforms and ongoing investments in technology, including specifically ML, AI and, generative AI, we are committed to helping hundreds of millions of people so that they can sleep better, breathe better, and live longer and higher quality lives.

Let me start with a high level review of our financials. I'm proud to report that we delivered global revenue growth of 10%, reflecting positive and consistent contributions across our combined sleep health, breathing health, and residential care software portfolio. Global device sales were driven by strong market performance across our US as well as Europe, Asia, and rest of world markets, reflecting the continuing demand for our AirSense 10 and AirSense 11 platforms.

Device sales remained strong, growing double digits year over year. We increased the global availability of our AirSense 11 platform this quarter launching in India during Q2. We will have additional country launches of AirSense 11 planned throughout calendar year 2025. We make the market leading sleep health platform with the AirSense 11. I want to make it clear that there is still strong global demand for the second-best device platform in the market, and that is the AirSense 10 range.

Our masks and accessories business also had another strong quarter, delivering double-digit global growth in that category as well. Ongoing rollout of Brightree ReSupply and SNAP technology have helped in our US market and we expect to maintain that momentum as we launch SNAP technology that can work on all HME management platforms throughout calendar year 2025.

We achieved 230 basis points of margin expansion in non-GAAP gross margin year over year to 59.2%, reflecting our ongoing focus on improving operating efficiencies. With disciplined investments in R&D and SG&A. We achieved a 29% increase in non-GAAP earnings per share.

Our new head of supply chain, Shane Azzi, and his team are committed to driving increased supply and increased manufacturing efficiencies by investing in technology and infrastructure to power long-term cost improvements. By balancing this cost discipline with strategic investments in new product introductions, we will continue to drive sustainable and profitable growth for ResMed.

We have published peer reviewed studies showing categorically that ReSupply programs drive patient adherence. They improve patient outcomes and they also lower long-term costs for the healthcare system. In the US, our digital health ecosystem including both AirView for payers, Brightree for home medical equipment payers as well as for patients, the myAir app. They continue together to power these ReSupply programs.

We are actively investing in appropriate modified versions of these successful US ReSupply programs into our global markets. Each of the 140 countries that we operate in have different regulatory, reimbursement, economic as well as cultural norms. It's our opportunity to leverage ResMed's

knowledge of each of those markets and to optimize the best way for a person to regularly receive fresh supply for their life-changing and life-saving care.

ResMed is an innovation machine. Our ongoing investments of 6% to 7% of revenues into R&D is a key growth driver and a key part of our long-term success. With trailing 12 months revenue around $5 billion, that's $300 million to $350 million that we invest annually into R&D, creating the smallest, the quietest, the most comfortable, the most connected, and the most intelligent devices, masks, and software solutions.

During the quarter, we launched the AirTouch N30i to select markets. The AirTouch N30i is a world first from ResMed with its unique fabric-based patient interface. My philosophy is this. We sleep on cotton sheets. We have fabric covers for the pillows that we sleep on. Why can't we have sleep apnea therapy that is just as comfortable as that. Early feedback from respiratory therapists from physicians and from patients directly is that the comfort and fit of the AirTouch N30i is outstanding. This new technology could permanently change the basis of competition in mask innovation. It's one thing to create a prototype of a mask. It's another thing to have manufacturability at scale with top quality, top comfort, excellent seal, and great long-term patient outcomes. Watch this space for our new to world fabric-based AirTouch technology, launched first here on the AirTouch N30i platform.

During the quarter, we announced another collaboration with the Apple Vision Pro team with the launch of what we call the Kontor Head Strap. This is a premium accessory for the Apple Vision Pro. ResMed, as all of you as shareholders know, is the world leader in providing facial interfaces in the field of sleep health and breathing health and healthcare technology at home.

This is great to see that now, a top consumer tech company like Apple, has chosen to partner with ResMed on an interface that we make that delivers a superb balance of softness and support for the extended wear time that users of the Apple Vision Pro need.

The Apple Vision Pro accessory is crafted with a blend of ResMed's exclusive ultra-premium materials and designed to be gentle on the skin. This project shows that ResMed's expertise is applicable outside of pureplay in medical technology and it's part of this convergence of MedTech and consumer tech and the learning that that will provide for both the medical and consumer fields is an important part of this opportunity. Watch this space.

ResMed had a very strong presence at the Consumer Electronics Show or CES in Las Vegas at the start of 2025, just a couple of weeks ago. We provided a digital sleep lounge that offered people a place to go to relax and to learn about the importance of sleep health, of breathing health, and care delivered at home. Across CES display booths, there were many consumer tech companies showing their latest and greatest sleep wellness and sleep monitoring solutions from Apple to Samsung to Google's Fitbit, Oura ring, Garmin, WHOOP, and beyond. We are very excited to have sleep health become mainstream.

Interestingly, ResMed's products were on display in the massive Samsung booth. Samsung was touting their new Galaxy watches' sleep apnea detection capability and illustrating the link between their Galaxy watch ecosystem and ResMed's market leading products for the treatment of sleep apnea. I'll talk more about sleep apnea detectors and this convergence of MedTech and consumer tech a little later.

But now let me provide a brief update on GLP-1s, the new class of pharmaceuticals that are focused on weight loss, diabetes and metabolic control, cardiovascular outcomes, and now also sleep apnea. I'll then come back to consumer wearables that can detect sleep apnea.

So late during our Q2 on December 20, Eli Lilly gained FDA approval for the use of Zepbound, a GLP-1 in patients with obesity and moderate-to-severe sleep apnea with a reduced calorie diet and physical exercise. It's interesting to note that the SURMOUNT-OSA trial excluded patients with diabetes. In the lead up to its launch to consumers, Eli Lilly's early educational documents that are available to the medical community on the Eli Lilly website includes a patient guide for the treatment of obstructive sleep apnea or OSA.

It was encouraging to see that Lilly followed the American Academy of Sleep Medicine or AASM guidelines that explicitly state that positive airway pressure devices are the frontline and gold standard for treating sleep apnea and that these PAP devices -- CPAP APAP bilevel have the highest efficacy when used as directed.

Beyond just the guidelines, their own FAQs on the Lilly website informed physicians and patients that CPAP devices are now smaller and quieter and that CPAP masks have been refined to increase comfort. We agree. We welcome the opportunity to educate potential patients on the benefit of all therapy options for the treatment of obstructive sleep apnea starting with the gold standard front line CPAP, APAP bilevel. Then considering the next most efficacious dental devices and finally looking at pharmaceutical or even surgical options.

On January 14, 2025, the AASM issued a quick reference guide to providers, considering the use of new drugs for the treatment of OSA. The AASM continues to emphasize the use of positive airway pressure as the frontline treatment and suggests that weight loss drugs may be useful as an adjunctive or combination therapy.

Our experience with bariatric surgery patients these last two-plus decades and now with these latest generation GLP-1s these last five-plus years is that when someone loses weight that doesn't change their age, that doesn't change their gender, that doesn't change most importantly in this context, their craniofacial anatomy. These are key risk factors for sleep apnea.

We are looking forward to addressing the educational gap on the prevalence and treatment of obstructive sleep apnea with continuing medical education or CME programs that we are aiming specifically at primary care physicians. And we're especially targeting those who are high volume currently high volume GLP-1 prescribers. They will be the frontline for the patients that pharmaceutical companies will attract as they ramp up their own consumer advertising throughout calendar year 2025 and beyond.

We are now tracking 1.2 million patients who have had a prescription for the latest generation GLP-1 medicines and who also have a prescription for positive airway pressure therapy. The data are clear in this real-world analysis and that is that these people are very motivated. In fact, they are more than 10% more likely to start PAP therapy. That motivation versus a garden variety PAP patient remains. One year later, we continue to see north of 3% higher, not just adherence but actually buying masks and accessories.

Then the curves separate with a greater than 5% increased propensity for ReSupply at two years. These data have now been steady with the same trend, plus or minus a couple of tens of basis points as we have grown our analysis from a year ago with 300,000-plus patients to now tracking over 1.2 million patients.

One thing is clear, the real-world evidence shows that the combination of a GLP-1 prescription and a PAP prescription is powerful for patients with obstructive sleep apnea. They start our therapy more and adhere more to PAP therapy over the long term. And we know that adhering to PAP therapy over the long-term saves healthcare costs, improves patient quality-of-life outcomes, and lowers patient mortality. We believe that GLP-1s are helping activate a whole new population of patients into the healthcare system that weren't coming in before and ResMed is well positioned to support them.

Okay. Next, let's briefly return to the consumer wearables megatrend. The velocity of change in the way the world operates in consumer tech and in health tech is amazing and ResMed is right in the nexus of that. In fact, we are driving adoption of basic ML and AI broadly into our software offerings across the board. And we are pioneering generative AI with our commercially available product Dawn which I see is just the start of what I call the sleep health concierge platform. More to come on that later.

But the bottom line is consumers are more focused than ever on tracking their personal health, their personal wellness, and their personal wellbeing. The Samsung Galaxy watch was the first to get De Novo FDA clearance for detecting OSA early in 2024. And Apple announced sleep apnea detection from the main stage as they launched the latest generation Apple Watch in September 2024. The data tracked by those two leading wearables will provide the opportunity for their millions -- no, their hundreds of millions of users to potentially detect sleep apnea. This is not a one quarter step change, but a chance for gradual and steady long-term demand generation for sleep apnea patients that benefits ResMed.

Of course, the information goes both ways. Patients can get their myAir scores from the ResMed myAir app. But they can also get them from their Apple Watch. They can get their myAir scores on their Samsung Galaxy watch. We know that this type of gamification of healthcare can help drive adherence. We expect more and more people are going to want access real-time to sleep data as the interest in improving sleep continues to grow.

As I said earlier, it's not just these two leading tech players in Apple and Samsung, but it's also Google's Fitbit, Oura's Ring, WHOOP devices, Garmin devices, and beyond. We expect that they will all continue to expand their sleep architecture and sleep assessment capabilities. And my personal bet is that more than a few of these other wearable players will add sleep apnea detection in 2025.

We see this investment by consumer wearables companies and pharmaceutical companies in sleep health as a once-in-a-generation opportunity for sleep apnea awareness. We believe that these technologies will help drive more potential patients to seek out information regarding their sleep health and their breathing health. ResMed's obligation is to help sleep health concerned consumers to find their own pathway to appropriate diagnosis and treatment for sleep apnea where ResMed leads the world with the most clinically effective, the least invasive, the most proven, and the most cost effective solutions on the planet.

We don't believe that these two megatrends will drive a simple one and done or one-time step change in patient flow. Rather, we believe that this will be an increase from baseline patient flow that starts over one, three, five quarters as these technologies roll out but it has durability over one, three, five years and beyond. We are creating the infrastructure for demand, generation, demand capture, and demand conversion to help these people find the care that they need. Watch this space.

So turning now to our long-term vision that we outlined at our Investor Day at the New York Stock Exchange last September. Our ResMed 2030 strategy is crystal clear. It's focused on three key pillars. Number one, growing and differentiating our core sleep health and breathing health business. Two, expanding into adjacent areas, including respiratory insufficiency such as COPD, including insomnia, including COMISA and beyond. And three, leveraging our leadership in digital health to drive better outcomes for patients, for providers, and for payers.

So a key component of pillar number one is driving the value of the ResMed brand. That decision, that moment of truth when a physician writes a script for ResMed, when a respiratory therapist recommends a ResMed mask solution, when a health care provider chooses a ResMed digital health solution or where a consumer anywhere in the 140 countries where we sell our products and services establishes a personal relationship with the ResMed brand. All of these moments added together that is the equity that is built into the ResMed brand. We will continue to build our ResMed brand awareness and evolve our brand to be more future focused and closer to the customer.

I want to make it clear that our marketing tech team will ensure that there is ROI, return on investment for every single demand generation, every single demand capture, and every single demand conversion project as we move more and more people into the diagnosis and treatment fund. With over 1 billion people suffocating with sleep apnea worldwide, we have a lot of runway ahead in our core market. It's great that we have a couple of megatrends on our side to help.

The global demand for sleep health and breathing health solutions is growing, and our mission to help people sleep better, breathe better, and live high-quality lives to their fullest potential continues to drive everything that we do. But when you combine those opportunities from our core sleep apnea market with pillar number two, that is expanding into new adjacencies, the future couldn't be brighter. We will continue to invest in our cloud-connected non-invasive ventilators for respiratory insufficiency including COPD and neuromuscular disease. We will continue expanding our digital health and MedTech solutions for insomnia patients. I believe we're just at the start of that journey of that awful disease that we need to treat -- the inability to get to sleep, stay asleep, and wake up with refreshing sleep and beyond.

And for the generation of people who want to age in place to receive health care at the best place, lowest cost, lowest acuity, and highest quality of life, which is their home, we have our market leading software solutions like Brightree and MEDIFOX and we are best positioned to lower costs, improve efficiencies, and improve long-term outcomes.

We create life-changing healthcare technologies that people love. In the last 12 months, we've provided over 147 million people with a product such as a CPAP, an APAP, a bilevel, a non-invasive ventilator, a mask, a cushion, a humidifier, other accessories or a digital health solution such as myAir, AirView, Somnoware, Brightree, MEDIFOX, and beyond.

Our ambitious goal is to empower that impact and to empower 500 million people to reach their full potential in 2030 with sleep health, breathing health, and healthcare technology provided to them right where they live. With our strong financial foundation, our innovative product pipeline, and our expanded digital health ecosystem; we are well positioned to meet and beat our goals. Thank you to all the 10,000 ResMedians for your

hard work and dedication to make our mission possible. And thank you to our shareholders for your continued trust and support of our global ResMed team.

With that, I'll hand the call over to Brett in Sydney for a deeper dive into our financials and then we'll open up the floor to questions.

Brett, over to you.

Brett Sandercock - *ResMed Inc - Chief Financial Officer*

Great. Thanks, Mick.

In my remarks today, I'll provide an overview of our results for the second quarter of fiscal-year 2025. Unless noted, all comparisons out of the prior year quarter are in constant currency terms where applicable. We had strong financial performance in Q2. Group revenue for the December quarter was $1.28 billion, an increase of 10% on both a headline and constant currency basis.

Revenue growth reflects positive and consistent contributions across our product and ReSupply portfolio. Year-over-year movements in foreign currencies negatively impacted revenue by approximately $2 million during the December quarter. Additionally, we expect that year-over-year movements in foreign currencies will also negatively impact our Q3 revenue somewhere in the range of $15 million to $20 million.

Looking at our geographic revenue distribution and excluding revenue from our residential care software business, sales in US, Canada, and Latin America countries increased by 12%. Sales in Europe, Asia, and other regions increased by 8%. Globally on a constant currency basis, device sales increased by 11% while masks and other sales also increased by 11%.

Breaking it down by regional areas, device sales in the US, Canada, and Latin America increased by 12% supported by solid ongoing new patient diagnosis, masks and other sales also increased by 12%, reflecting growth in both ReSupply and new patient setups. In Europe, Asia, and other regions, device sales increased by 9% on a constant currency basis, masks and other sales increased by 7% on a constant currency basis. Residential care software revenue increased by 8% in the December quarter underpinned by strong performance from our MEDIFOX DAN software vertical.

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 second quarter earnings press release. Gross margin increased by 230 basis points to 59.2% in the December quarter. Year over year, our increase was mainly driven by manufacturing and logistics efficiencies and component cost improvements.

Sequential gross margin was consistent with last quarter despite the impact from an unfavorable currency headwind of approximately 30 basis points during the quarter. We continue to make good progress on our gross margin expansion initiatives and we are focused on driving further improvement in our gross margin. Looking forward, we expect gross margin will be in the range of 59% to 60% in the second half of fiscal-year 2025.

Moving on to operating expenses. SG&A expenses for the second quarter increased by 9% on both a headline and constant currency basis. The increase was predominantly attributable to increases in employee-related costs and to a lesser extent increases in marketing and travel expenses. SG&A expenses as a percentage of revenue improved to 18.8%, compared to 19.1% 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 18% to 20% for the second half of fiscal year 2025. R&D expenses for the quarter increased by 10% on both a headline and constant currency basis. The increase was predominantly attributable to increases in employee-related expenses. R&D expenses as a percentage of revenue was 6.3% compared to the 6.4% in the prior year period.

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 the second half of fiscal year 2025. Operating profit for the quarter increased by 19% underpinned by revenue growth and gross margin expansion.

Our interest expense for the quarter was $1 million. Given our lower debt levels, we expect to generate net interest income in the second half of fiscal-year 2025.

Our effective tax rate for the December quarter was 18% compared to 20.7% in the prior year quarter. The decrease in our effective tax rate was primarily due to higher tax benefits associated with employee equity compensation this quarter. We estimate our effective tax rate for fiscal-year 2025 will be in the range of 19% to 21%. Our net income for the December quarter increased by 29% and non-GAAP diluted earnings per share also increased by 29%.

Cash flow from operations for the quarter was $309 million, reflecting strong operating results, partially offset by higher working capital. Capital expenditure for the quarter was $21 million, depreciation and amortization for the quarter totaled $46 million. We ended the second quarter with a cash balance of $522 million. On December 31, we had $673 million in gross debt and $151 million in net debt. And we have approximately $1.5 billion available for drawdown under our revolver facility.

We continue to maintain a solid liquidity position. Today, our Board of Directors declared a quarterly dividend of $0.53 per share. During the quarter, we purchased approximately 307,000 shares under our previously authorized share buyback program for consideration of $75 million. We plan to continue to purchase shares to the value of approximately $75 million per quarter in fiscal-year 2025. This will more than offset any dilution from the vesting of equity to employees during the year. Going forward, we plan to continue to reinvest in growth through R&D, deploy further capital for tuck-in acquisitions, and continue our share buyback program.

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

Mike Ott - *ResMed Inc - Senior Manager, Investor Relations*

Thanks, Brett.

Matt, I'll now turn the call over to you to provide instructions and run the Q&A portion of the call.

Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Dan Hurren, MST.

Dan Hurren - *MST Marquee - Analyst*

Good morning. Can you hear me?

Michael Farrell - *ResMed Inc - Chairman of the Board, Chief Executive Officer*

Yes, loud and clear, Dan?

Dan Hurren - *MST Marquee - Analyst*

Hello?

Michael Farrell - *ResMed Inc - Chairman of the Board, Chief Executive Officer*

Yes, loud and clear, Dan.

Operator

Oh, sorry, Dan. We can hear your line just so you can hear us.

Dan Hurren - *MST Marquee - Analyst*

Oh, I'm sorry. Yes, sorry, my apologies. That's coming through loud and clear now.

Just question for Brett in regards to currency. At one of the recent speaking events, there were comments made about the negative impact of FX on margins. Now, I think you've just spoken to some negative topline. Could you just talk us through any other FX impact down the P&L as we've seen the strength of the US dollar?

Brett Sandercock - *ResMed Inc - Chief Financial Officer*

Yeah. Hi, Dan. Yeah, I mean, you called out particularly sequentially that 30 basis points impact for us. If you look down the P&L and net impact was negative $0.02 on our EPS for this quarter.

Dan Hurren - *MST Marquee - Analyst*

Sorry, my question was more looking forward on the spot rates that we have at the moment

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Brett Sandercock - *ResMed Inc - Chief Financial Officer*

Yeah. Got it. Yeah.

If we look at it, you think about it, we take -- if you like revenue straight away in the quarter. But there is typically about a quarter's lag where we see some benefit from a weaker say Singapore dollar and Aussie dollar, for example. So that helps us going into Q3, but we still have some of that Euro weakness coming through. So my expectation on gross margin will be relatively neutral on our gross margin and we'll get in a slight benefit if you like on a headline basis through R&D and SG&A.

Dan Hurren - *MST Marquee - Analyst*

That's great. Thank you very much.

Operator

Davin Thillainathan, Goldman Sachs.

Davin Thillainathan - *Goldman Sachs - Analyst*

Hi, Mick and team, thank you for the presentation.

Just a question the devices part of your business. Clearly, really strong US devices growth, double-digit profile. Could you give us some sense there on your thinking about the GLP-1 impact there? I know there were some comments on your opening remarks about the patient flow, potentially stepping up from GLP-1s. Do you feel that is starting to flow through in the numbers now or do you feel like it's perhaps a bit backend weighted, considering the Lilly label expansion there as well?

Thank you.

Michael Farrell - *ResMed Inc - Chairman of the Board, Chief Executive Officer*

Yeah, thanks. It's a good question. And there's multiple impacts of those two megatrends I talked about the GLP-1s and the consumer tech companies and their awareness they're driving in sleep apnea. Both of them drive together to drive patients to think about sleep health and breathing health and specifically about sleep suffocation or sleep apnea.

And so, yeah, look incredibly strong performance as you noted, plus 12% devices year on year for the quarter in the US, plus 9% in Europe, Asia, rest of the world and just great growth. I don't think there's a huge material impact from specifically, the new Zepbound indication and Eli Lilly, they just got their indication in December. And typically pharmaceutical companies wait six-plus months before they really start their direct-to-consumer advertising.

And so what we're seeing now is a lot of clinical education, continuing medical education, CME programs from ResMed and from Lilly and others to primary care physicians and that's what I expect. But that education alone I think will start to drive some demand gen into the funnel. It's going to be up to ResMed to really partner with those primary care physicians to ensure demand capture, conversion, and curation into the sleep apnea diagnosis, treatment, and management funnel.

And so that pathway if you like is in its early phases. I think we're in the very early stages of that. As I said in the prep remarks, I think the impact will start to happen over the coming one, three, five quarters where we'll start to get those models working, but then it'll have a durable impact over the coming one, three, five years and beyond. So this isn't as I said earlier. It's not a one and done. It's not a single step change. It's a gradual improvement in that patient flow. So I think we're in the very early innings of the flow of extra patients from GLP-1s and from consumer tech.

Thanks for the question.

Operator

Lyanne Harrison, Bank of America.

Lyanne Harrison - *BofA Global Research - Analyst*

Yeah, good morning all and congratulations on very strong device growth both in the United States and rest of the world.

Can you point out if there's any, I guess bulk purchases or one-offs that might have occurred this quarter? Also if there was any DME stocking ahead of potential tariffs.

Michael Farrell - *ResMed Inc - Chairman of the Board, Chief Executive Officer*

Yes. So thanks for the question, Lyanne. The short answer is no. We haven't had any of that one-time stocking. We did talk last quarter in Q1 about Japan where we launched the AirSense 11 and so Q1, there was some stocking in Japan because that is a fleet management business of our main distributors there.

But no, in Q2, none of that. We do not believe that ResMed will have any impact to us on any tariffs when you hear. And I sit on the board of AdvaMed so I'm carefully involved with Washington DC and Brussels and Beijing from that group. But we had a Trump-ready group and we were looking at the tariffs and as we see them, even if there are blanket tariffs on China, there'll be no impact on ResMed. We manufacture in Sydney, Singapore, Atlanta, and beyond.

And so none of those will be included. It may impact one of our competitors from China as they import to the US through Florida. So if there was a blanket impact on China, it could have a negative impact on them. And if there was a blanket USMCA, so Mexico Canada change from the Trump administration, which could happen and it has been threatened that could impact a competitor from New Zealand who does a lot of mask manufacturing in the maquiladoras there on the border on the Mexican side of the border. So both of those could have a negative impact on our competitors.

We're not banking on it. And in fact, at AdvaMed, I will advocate for a carveout for MedTech and/or food industries. I think they should be carved out even though it would hurt our competitors. I think I'd take the high road and say what's right for the community there. But let's see, we get to see what happens over the coming weeks and months there. But at ResMed, we're really focused for any of these outcomes and we saw a pretty steady flow of patients into the funnel and that resulted in the strong device growth.

Our challenge, as I said earlier in the prep remarks, Lyanne is to ensure that we contain -- continue that momentum and do our best to capture these patients who are being identified from their wearables or coming into the health care system because of the awareness of the new pharmaceutical class that can partially treat or can treat in combination therapy with CPAP. And so we'll be watching that and putting into place a lot of programs to see what we can do to maintain great momentum that we've had.

Thanks for the question.

Operator

Laura Sutcliffe, UBS.

Laura Sutcliffe - *UBS - Analyst*

Could you talk to your ability to scale things like home sleep testing and remote setup and anything else you think can help with getting all these potential new patients who might be coming your way onto therapy as soon as possible. Because one thing we hear is that sleep physicians in the US are struggling maybe to see all of the patients that they possibly could be. So just wondering how you can help create some space to get that done.

Thanks.

Michael Farrell - *ResMed Inc - Chairman of the Board, Chief Executive Officer*

Yeah, Laura, it's actually -- it's a great question. And as you noted in your question, there is a limit to the physical space that you can have in the infrastructure required for in-lab sleep labs. And many of them are at capacity. As you've seen just the awareness of sleep health and breathing health, people are thinking about it and asking questions and going to see their primary care physicians and getting referrals. We want to make sure that that sleep lab capacity remains at full usage but is focused on the more sick and more severe patients.

So patients who might have central sleep apnea, they need to be in a sleep lab because then they can diagnose their inability to breathe, which is with an open airway, which is central sleep apnea and get a prescription for something like Adaptive Servo-Ventilation, one of our high-end therapies that can help ventilate the patient with an open airway.

Also with overlap syndrome, if patients have COPD, they need to be in one of those labs because they're probably going to put them on a bilevel, noninvasive ventilation therapy to ventilate the patient and account for the obstruction if they have overlap syndrome. And if they have concomitant insomnia as I talked about in the prep remarks that is now called COMISA, the physician may use CPAP or APAP or bilevel for their obstructive sleep apnea. And right now, most of the options are only pharmaceutical options for the insomnia part, but watch this space for the future there.

To your point in your question, you said scaling the home sleep testing part, that's the part that can flex and that's the part that can flex quickly with this new demand. And even the large teaching hospitals like right here in California down the street, there's a large teaching hospital that has very large in-lab setup. But they also have an infrastructure of home sleep apnea testing equipment and they've got the ability to scale the number of tests that can happen for those who are at high risk for general garden variety obstructive sleep apnea. Those patients should be primarily funneled to home sleep apnea testing.

And so as we get this new flow of patients, ResMed's challenge is to do this demand capture, curation, and conversion and to partner with the sleep labs and the home sleep apnea testing companies and many of them are one and the same so that they can flex to keep this new demand and to make sure a patient doesn't wait months for a test, but waits days and no longer than weeks. And so we saw during COVID a great flex around home sleep apnea testing when labs were just closed and hospitals weren't allowing patients for outpatient.

And so we know that it can work. We've created the infrastructure with ApneaLink Air. We've launched our product called the NightOwl, which is a very small fingertip-sized home sleep apnea testing product. And we have partners out there using that. We're open to all of the other diagnostics from Nox Medical. We partner with them in Europe. And so our goal will be to make sure that every time patients come into primary care physicians and get that prescription and that desire for a home sleep apnea test, that a sleep physician is available to serve, whether it's in lab for the more complicated patients and for home sleep apnea testing for the triage of the vast majority of patients that have obstructive sleep apnea alone. So we're ready. We're partnering with the channel. And as I said, over the upcoming one, three, five quarters, we'll roll out the infrastructure. The one, three, five years will start to see the benefit of the scaling of the patients through there. It's a great question about the infrastructure. Thank you, Laura.

Operator

Craig Wong-Pan, RBC.

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

SaaS revenue growth slowed a bit from the first quarter. Could you share what the growth rates were for the different businesses within SaaS? And are you still expecting double-digit growth for that business?

Michael Farrell - *ResMed Inc - Chairman of the Board, Chief Executive Officer*

Yeah. Thanks for the question, Craig. And yeah, our residential care software business includes MEDIFOX, Brightree, and MatrixCare brands and beyond, Citus Medical and others. We don't break out annually or even on a quarterly basis our -- the breakdown of, of what flow there. I can give you some trends though.

Look, as Brett said in his prepared remarks, our MEDIFOX team are doing very well. Our German home nursing and nursing home software business is growing very strongly. So it's ahead of that group growth of 8%. And Brightree is doing very well in line in the high-single digits. And some of the skilled nursing facilities and senior living facilities post-COVID have never really picked up the rate of growth that they'd had before. And so we're looking -- as we look at those businesses, we look at it as a portfolio management approach. And we're investing more and more in the

growth parts of the business. Obviously, huge synergies back to our core business in Brightree ReSupply, SNAP technologies. And so we're investing a lot in Brightree and SNAP.

And as I said in my prep remarks, scaling SNAP for all which will increase our software-as-a-service, residential care software core growth, but also will help us maintain momentum in our mask growth in the core market as well, so we're seeing good growth there. And in some of the lower growth areas, we'll probably invest less in those areas. And so that portfolio management, I think we guided to high-single digit growth for our residential care software business. I have guided to double-digit growth in net operating profit and we are achieving that within our residential care software business. And so that's where we're really looking at.

Meeting or beating that market growth of high-single digits and then making sure that we get leverage through SG&A and R&D to strong net operating profit growth in the double digits there. But it's a good question and it's something we look at very carefully and portfolio management across residential care software. I'm working very closely with the residential care software teams, the leaders of the Brightree, leaders of MEDIFOX, and leaders of our MatrixCare brands to make sure that we're investing in the right areas and where there's the most potential to lower costs improve outcomes and the most synergies with our core ResMed business.

Thanks for the question, Craig.

Operator

Michael Matson, Needham & Company.

Michael Matson - *Needham & Company Inc. - Analyst*

I guess I want to ask one on the device growth. I mean it was double digits. Do you think that's representative of the growth in patients? Or are you getting some pricing benefit there on top of that and then or is there something maybe happening with rePAP where that's starting to pick up?

Michael Farrell - *ResMed Inc - Chairman of the Board, Chief Executive Officer*

Yeah, Mike, thanks for the question and it's a good one.

Look what we say is that the market growth rate is mid-single digit for devices globally and mid-single digit devices growth in the US, just standard market growth and high-single digit growth for the masks. And our job, you followed us for a long time, Mike, is to not just accept market growth, but to meet or beat it through demand generation through, as you said, ReSupply on the mask side, rePAP on the device side.

I can tell you our customers and our partners in the channel as well as globally, distributors and some of our consumer businesses in Europe and Asia are really focused on those new patients, but also on patients who have devices that are five or more years old, the warranties are usually only around three years. And so any time after three years, some people, once it's out of warranty to buy, but most insurance companies including Medicare here in the US will provide a new device after five years, most of the private payers as well.

And so I think that rePAP opportunity is still out there and it's something that we've got an opportunity to drive. But look, it's an ongoing battle. It's an ongoing game to make sure that we can get the demand generation, demand curation, the domain capture and really that demand conversion to make sure a person gets from that, that referral to the sleep specialist if they have a positive diagnosis for a rapid path to set up. And we've been working a long time on that digital health platform.

COVID helped us. It proved that we could do some of these more digitally, more remotely. And we've partnered with our physicians to do that and we've had some success as you saw with really good growth in this quarter. But look as we look at it, the default is mid-single digit growth in devices, high-single digit growth in masks, and high-single digit growth in software. Our goal is to meet or beat that every quarter and we did meet or beat

that in every part. We had a beat in the devices, but it's not a given and we don't take it for granted and we know that we have to work hard on all of the above demand gen, capture, curation, rePAP conversion and ReSupply on the mask side to keep that momentum.

Thanks for the question, Mike.

Operator

Anthony Petrone, Mizuho Group.

Anthony Petrone - *Mizuho Securities USA - Analyst*

Thanks, Mick, and I'll just revisit back to GLP-1 but actually pivot to a reimbursement coverage. So Lilly secured Medicare coverage for Zepbound. We haven't seen commercial payers come in. So maybe just your views, Mick, how reimbursement in the United States will settle out now that we'll have a GLP-1 covered side by side with CPAP. Do you think eventually as commercial payers come in that you'll have to actually step through CPAP to get to a GLP-1.

Thanks again.

Michael Farrell - *ResMed Inc - Chairman of the Board, Chief Executive Officer*

Yeah. Thanks for the question, Anthony. And look, you and the other great sell-side analysts here know the pharmaceutical side better than I do. I'm a global expert on MedTech and particularly respiratory MedTech. You're better on your own research and your team to know what's going to happen with if Lilly got Zepbound with CMS, what are their chances with United, Humana, Cigna, and beyond.

But look in general in our space, the private players do follow Medicare at least to some extent, but not a given -- this is a new class of medicines that's not just focused on sleep apnea. It's really focused on that broad obesity play, cardiovascular, diabetes, metabolic syndrome, and obstructive sleep apnea is probably the third tier there.

So we're not unrealistic to know that this indication for use is not the only thing that Lilly's focused on and it's probably not their number one priority. But I think having spent tens of millions on the SURMOUNT-OSA trial and having positive data that shows that on average, half treatment, 50% treatment of AHI, they've got a good incentive to start advertising. We're going to watch very carefully as they get that reimbursement for Zepbound for different indications. Is it for obesity or is it for apnea and is it for diabetes.

But as they start to get those, I'm pretty certain that we will start to see that direct-to-consumer advertising. What we have seen already is that they are investing in continuing medical education. Their CME programs are out there. They posted on their website, a lot of information and the heartening part for us, Anthony, is that they're following the American Academy of Sleep Medicine guidelines. They're following the gold standard guidelines and that really does, as you say, it says frontline, you have to use the most efficacious, least invasive, most proven therapy first, and so you have to use CPAP, APAP, bilevel.

And then as their own data showed like Lilly's data, SURMOUNT-OSA showed in there they had two trials. One non-CPAP patients and one CPAP patients. The CPAP patient trial, those patients did better. They had better outcomes. And so it's not just in the medical science from the American Academy of Sleep Medicine, it's from Lilly's own clinical data that shows the combination therapy is better. So I think that we'll start to see them do that advertising at some point following their indication for use approval. I don't know if it's 6 months or 12 months, every pharmaceutical company makes a different decision every drug. But I look forward to them getting approval, getting coverage as broadly as they can, and starting to advertise, and doing the right thing, saying we want to treat the whole person. You want to treat the core sleep apnea and you want to treat the weight.

And that combination therapy we think is the future of obstruction of sleep apnea treatment. We saw it in their data. We see it in our data, the 1.2 million patients we're following. The combination prescription of a GLP-1 prescription and a PAP prescription leads to pretty good outcomes, high start rates and high propensity to adhere to therapy. And for us, we see that in the purchase of masks and accessories and we know that leads to lower costs and better outcomes and lower mortality for the patients.

So yeah, Anthony early days as I said, but we're quite excited about that. I haven't got any questions yet about it, but I'm actually slightly more excited about the consumer tech trend because that's already out there. You've got tens of millions of people, hundreds of millions of people with these watches, these wearables and that those algorithms are FDA cleared and they can detect sleep apnea and we will start to see those patients come through. And it's our challenge to help those people find a digital pathway into the healthcare system.

Thanks for the question, Anthony.

Operator

Mathieu Chevrier, Citi.

Mathieu Chevrier - *Citi Investment Research - Analyst*

Just to jump back on that previous question, do you think there's more research to do on the benefits of CPAP and perhaps more education. It's clearly the pharma companies have been quite aggressive at just broadening the potential indications for GLP-1.

Thank you.

Michael Farrell - *ResMed Inc - Chairman of the Board, Chief Executive Officer*

No, it's a great question. And if you look at the nearly 21 billion nights of respiratory medical data that ResMed has in the cloud, the more than 30 million patients that are part of the AirView ecosystem, the 9.3 million patients that have downloaded the myAir app, we've got a treasure trove of information and we have absolutely -- it's all de-identified, it's private, it's cybersecure, and we really focus on really looking as you said on that research. We have peer reviewed published data showing a 39% reduction in mortality for patients who are CPAP adherent versus not in our ALASKA study.

We have a lot of data that we've shown in improvements in cardiovascular outcomes, reductions in blood pressure, improvements in HbA1C for metabolic control and beyond. But to your point, I think, given the awareness that's going to be driven by the pharmaceutical companies coming in here, we have to drive more and more of that. So I've challenged our Chief Medical Officer, Carlos Nunez, and his team to increase the velocity and the qualities. Velocity is speed plus direction. So not just the speed of clinical research to market from our real-world data, but the direction that it is more focused on outcomes really showing. And we peer reviewed published this, that there's a dose response relationship between the use of CPAP every night and the lowering of health care, all causehealth care cost outcomes.

So for every hour of sleep, using your CPAP, you have a 7% reduction in total health care costs for that patient, all the way up to seven hours sleep. So up to 50% reduction in all cause costs. And so the more and more ResMed can not only get those data but get those data and put them into the Intermountain Healthcare System, put them into the Kaiser Healthcare System, these great payer providers, Geisinger and beyond.

And actually, the mortality data was done with the French government on a social security database, the ALASKA study, the more we can do that in western and northern Europe where you've got government run insurance programs that really do focus on long-term outcomes because the government is the payer for the life of these citizens. And so we're going to have more and more data. Watch this space. We are the market leader in digital health. And I would say publication of real-world data and real-world evidence in the field of MedTech. And you're going to see more and more from us and it will only be increased in the momentum with big pharma starting to invest with things like SURMOUNT-OSA showing combination therapy is better than single therapy as well. So more grist for the mill. Thanks for the question.

Operator

David Low, JP Morgan.

David Low - *J.P. Morgan - Analyst*

Mick, I was wondering if we could come back to the question that was asked earlier about the market growth versus ResMed's growth. I mean, clearly with ResMed's dominance in devices, ResMed largely is the market. Can I get you to talk a little bit as to what you think the drivers might have been this quarter that we drove the growth rate above 10% versus your estimates of market. I mean, clearly, some of the variables we would like it to understand the price and mix and whether that really was a contributor. And do you have a sense as to whether rePAP is starting to become a meaningful contributor at this stage, please?

Michael Farrell - *ResMed Inc - Chairman of the Board, Chief Executive Officer*

Yeah, thanks, David. And as you know, you've followed us for a long time too that there's lots of aspects that go into just the quarterly snapshot. Clearly, we have a very strong position. We have very strong competition. We have a very strong position in the US, in Europe, and in Asia. But we do have competition. So we are able to take share and we are able to disproportionately partner with physicians, home care providers, and distributors and beyond where they are able to do better at growing shares. So we partner and provide technology like Brightree, and AirView that helps identify patients for ReSupply and that helped us get -- haven't really talked about it much, but our US mask growth was 12% of the quarter, which is really strong too. And so those Brightree ReSupply and SNAP technologies are really strong.

But on the device side, look, a couple of 100 basis points ahead of market. How much of that was some of that demand gen work, how much of that was high deductible health plans and what we can do with patients there in a December quarter, how much was rePAP? We have the splits around those. We know the levers that we can turn and we're going to -- what our job is to really, I think in these megatrends is to work out how do we sustainably and credibly to an earlier question about infrastructure, make sure that new patients coming in aren't held in a do-loop in terms of the time from referral to a sleep specialist to getting that diagnostic and then getting to therapy and that process optimization I think is a way that we can maintain that type of momentum but there are many other aspects.

And I mean I said this earlier, but I think we're in the very, very early stages of seeing any flow from these other big megatrends, but we have to be ready to capture those patients as well. So it's a complex portfolio management approach to demand gen, capture and conversion, whether it's existing installed base with ReSupply and rePAP and new patients and that balance for both devices and masks, I think we're getting down to a pretty good science on it. We did very well this quarter and we'll keep on focusing for 2025 on the long-term investments. We're going to need to make an infrastructure and capabilities to capture, convert, and ensure a really good experience for the person as they go from sleep concerned consumer to a happy patient on therapy for life.

Operator

Brett Fishbin, KeyBanc Capital Markets.

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

Just a question for Brett on the gross margin guidance for 2H. Are you still expecting a sequential increase given relatively flat performance in 2Q versus 1Q or should we be thinking about 1H as more of a reasonable level for 2H? And just as a follow up there, what would be the biggest swing factors that you think could drive progress closer to the high end of the commentary, which would be closer to 60%? Thank you very much.

Brett Sandercock - *ResMed Inc - Chief Financial Officer*

Yeah, thanks, Brett.

We've guided that 59% or 60% where it's the low end there. We certainly -- we've got initiatives in place. We want to continue to improve the gross margin. So certainly that's our aim as we work through the second half of FY25. But we think it'll be in that range of 59% to 60%.

There's a lot of optimization and issues. We're working on three key areas, there's manufacturing, there's procurement initiatives, just scale benefits as well. The progressive transition to the AS11 platform as well plays out. Some of the swing factors on there will be things like product mix as well and how favorable or unfavorable that is.

Freight, which is stabilized, do we see some benefits in the second half? That's probably still a watch and wait and as we roll out new products as well that tends to help. So there's a bunch of factors that play out on that can impact the timing of when these benefits come through. But our priority is to have a good healthy pipeline and then we can deliver that pretty consistently and that should support our gross margin like in a medium-term view if you like rather than quarter by quarter.

Operator

Thank you. This concludes the question-and-answer session. I'd like to turn the floor back to management for closing comments.

Michael Farrell - *ResMed Inc - Chairman of the Board, Chief Executive Officer*

Great. Well, thanks, Matt and thank you to all our shareholders for joining us on this call. And thank you especially to the 10,000 ResMedians operating in 140 countries. Many of you are also shareholders. Thanks for what you do today and every day. You're working with patients, physicians, payers, providers, and health care communities to change the world and you build value for stakeholders, especially the shareholders who are listening to us today. So thank you for what you did these last 90 days. We'll talk to you all again about 90 days and that concludes the call. I'll hand over to Mike to close us out.

Mike Ott - *ResMed Inc - Senior Manager, Investor Relations*

Great. Thank you, Mick and thank you, everyone, for listening. We appreciate your time and interest. If you have any additional questions, please don't hesitate to reach out directly. This concludes ResMed's second-quarter 2025 conference call.

Matt, you may now close the call.

Operator

Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you again for your participation.