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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Greetings, and welcome to the Q3 fiscal year 2025 Resmed earnings conference call. My name is Kevin, and I'll be your operator for today's call. (Operator Instructions) And also, please note this conference call is being recorded. (Operator Instructions) Let me hand the call over to Resmed's Chairman and CEO, Mick Farrell; for a brief introduction of Salli Schwartz, who recently joined the company as Chief Investor Relations Officer. Mick, please go ahead.

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

Thank you, Kevin. I'm very excited to have Salli join the Resmed team, our newest Resmedian. She joined us earlier this week and brings more than two decades of experience across capital markets, health care and technology.

We look forward to Sally helping us to take Investor Relations to the next level here at Resmed, providing clarity, transparency and long-term alignment amongst current and future investors and all of our stakeholders. So Sally, we're thrilled to have you on board.

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

Thanks, Mick. I'm happy to be here, and I look forward to meeting our investors very soon. But first, I want to welcome our listeners to Resmed's third 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 corporate website later today. Our earnings press release and presentations are both available online now.

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

In addition, our discussion today will include forward-looking statements, including, but not limited to, expectations about our future financial and operating performance. We make these statements based on reasonable assumptions. However, our actual results could differ. Please review our SEC filings for a complete discussion of the risk factors that could cause our actual results to differ materially from any forward-looking statements made today.

I'll now turn the call over to Mick.

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

Thank you, Salli, and good morning, good afternoon and good evening to the folks from Asia, here in the North America and those in Europe, as we welcome our shareholders around the world and review results for our third quarter of fiscal year 2025.

I'm excited to report that Resmed delivered another strong quarter, achieving excellent top line and bottom line results. We delivered solid revenue growth, gross margin expansion, both sequentially and year-on-year, very strong free cash flow generation and maintained our disciplined approach to investments in both research and development and SG&A.

This performance reflects broad-based momentum and disciplined execution to capture growing demand for our products. Our continued success is driven by our market-leading value proposition with top quality hardware and top-quality software products as well as our expansive digital health software ecosystem, with cloud connected devices, digital health platforms and investments in machine learning, artificial intelligence as well as generative AI technology.

Our results are a testament to the work that we do to enhance sleep health breathing health and health care delivery in the home. Thanks to the over 10,000 Resmedians who make that happen by delivering products and services to serve patients in over 140 countries worldwide.

As the global leader in helping patients with chronic respiratory conditions, we are closely monitoring the evolving global trade environment, particularly in the area of tariffs. In my current role as a Board member at Advamed and the current Chair of the International Committee on the Advamed Board, we will continue to urge countries around the world to exempt all medical devices from tariffs on a humanitarian basis.

For us here at Resmed, the news is even better. I can report that because of the fact that our products are used to treat patients with chronic respiratory conditions, that have been subject to global tariff relief for decades. We have reaffirmed that, that is the case with federal authorities just this month in the current setting.

In short, Resmed is very well positioned with exemptions in place for our products that are used to treat sleep apnea and respiratory insufficiency as well as other chronic respiratory conditions. In terms of Resmed's inherent strengths of outperforming our competitors with prior externalities, such as the COVID crisis, supply chain crisis and our ability to ramp up to meet the needs when our competitors simply could not.

I will say this, that our exceptionally strong balance sheet, and our net cash position, our global scale, our accelerating operational efficiency as well as ongoing cost discipline gives us the confidence to not just survive but to thrive whatever the market may bring. Resmed is all about stability and balance in times like this.

Ultimately, we're committed to make sure that sleep therapy, breathing therapy and health care technology that's delivered in the home is both accessible and affordable as well as ensuring that the delivery of our solutions is consistently available for our patients, for our providers and all of the health care partners in our global ecosystem.

Our Sydney-based and Singapore-based facilities continue to be the core of our manufacturing leadership globally. In addition to that, we will soon open our newest manufacturing location in Calabasas, California. This will double the size of our current manufacturing footprint in the United States of America, serving as the hub of our research and development for our motor technology, increasing the manufacturing capacity of core motor technology even closer to our largest market here in the US and expanding manufacturing of silicone mass cushions, leveraging advanced molding technology that Resmed leads the world in.

This facility is designed to scale over the coming years with multiple mask molding cells and more growth as mask manufacturing increases to meet growing US and global demand. And I can tell you, these factories are very automated and very high tech. We're getting -- we're also investing in getting to our products to our home care providers even more efficiently here in the United States.

Our largest distribution facility worldwide is our 522,000 square foot campus in Atlanta, Georgia. We also have a West Coast facility just up the road from us here up in Moreno Valley, California. Over half of our global research and development investment is now US-based, with tenfold growth in American R&D over this last decade.

These investments reflect our leadership, our economic development focus and the health care impact that we have as Resmed right here in the US where we have our global headquarters and where we support our largest global market, the US domestic market.

Resmed is an innovation machine, and our ongoing investments of over 6% to 7% of revenues into research and development is a key growth driver of our long-term success. I'm proud that we have been recognized for these market-leading efforts as we were named in the LexisNexis list of the top 100 global innovators.

This award is given to market-leading companies that are driving pioneering innovation in the global economy. We continue to introduce new technology to our customers in the third quarter because it's nice to get awards. But as my father, the founder of Resmed says, innovation is when customers actually pay for it.

This quarter marked the first full commercial rollout of NightOwl in the United States. NightOwl is a fingertip sized home sleep apnea test that is being used by physicians, sleep labs as well as independent diagnostic and testing facilities known as IDTFs to diagnose patients.

Widespread adoption of our NightOwl product will help more efficiently move patients through the screening and diagnostic funnel so that physicians can then write prescriptions and home care providers can then set up those patients on therapy and take care of them for life.

In addition to the nationwide launch of NightOwl, we're providing our sleep lab partners with even more new technology this quarter. On April 15, we launched the AirSense 11 version of VPAP Tx. VPAP Tx is our sleep lab testing and titration platform, built specifically for both hospital as well as outpatient sleep lab environments.

VPAP Tx is purpose-built to support everything that a sleep physician needs in the sleep lab, including titration, evaluation and setup across every therapy mode that Resmed offers, including CPAP, APAP bilevel S, bilevel ST as well as adaptive servo ventilation, also known as ASV therapy.

VPAP Tx gives physicians gives RPSG techs and respiratory therapists, a powerful new tool to personalize the gold standard positive airway pressure treatment decisions and ultimately, to accelerate adoption of long-term therapy for their patients through personalization of that therapy.

The VPAP Tx platform is built for flexibility for precision and for clinical confidence. When we pair NightOwl and VPAP Tx with AirView, our cloud-based software for physicians and home care providers, they become part of a complete connected pathway from diagnosis and titration to prescription and ultimately, therapy adherence.

Of course, we are working to incorporate diagnostic insights from NightOwl into our myAir patient app and to incorporate diagnostic data from both NightOwl and VPAP Tx into Somnoware. Somnoware, our software for physicians and sleep physicians practices continues to grow in its reach and has been adopted by one of the largest private health care systems in the United States as well as being further expanded within the US Veterans Administration, or VA.

Our investments in testing devices and diagnostic tracking software, which benefits potential patients, sleep labs and our home care providers, demonstrate Resmed's depth of commitment to the entire sleep health and breathing health ecosystems that provides access to the market-leading sleep apnea therapy, and that's from Resmed.

We will continue to invest in our digital health ecosystem to help expand the diagnostic funnel to keep up with expanding new patient flow from both our own demand generation, demand capture investments as well as capturing demand from two powerful macro trends. One, the widespread adoption of GLP-1 medications, both in the US and worldwide; and two, accelerating momentum in consumer wearables.

For consumers coming into the funnel from all of these areas, Resmed will be known as the company answering their questions about sleep health. I call this concept a digital sleep health concierge capability, including screening protocols, clinical tools, seamless workflows and cloud connected care pathways.

Resmed is the leading global brand in the field of sleep health and breathing health. We want to expand the reach of that brand to help them more than 2.3 billion people that need our health for their sleep apnea or as I call it sleep suffocation, their insomnia inability to get to sleep, stay asleep, or their respiratory insufficiency due to chronic obstructive pulmonary disease or neuromuscular disease.

During the quarter, we announced a comprehensive Resmed brand evolution strategy designed to unify our global brand portfolio into one across sleep health, breathing health and health care technology that is delivered into the home.

We will continue to build Resmed brand awareness and evolve our brand to be closer to each and every customer. However, I want to make it clear that our marketing team will make certain that there is a positive return on investment or ROI for every single demand generation, demand capture and demand conversion project that we launch as we move more and more people into the diagnostics and treatment funnel.

When we talk about Resmed brand development, please note that internally, that means Resmed brand ROI as well. An example of our disciplined demand generation experimentation is shown in our latest effort to educate physicians.

We have launched a targeted demand generation program through continual medical education, also called CME programs to help teach physicians the benefits of CPAP, APAP and bilevel therapies for their patients. These targeted education efforts are having an impact with measurably increased prescriptions from those physicians.

In addition to physician education, we're also reaching out to consumers looking for what we call sleep health concerned consumers. On this front, I'm happy to say that our experiments on streaming advertising in select cities have resulted in significant increases in patient flow into the screening and diagnostic funnel.

It remains early days with these first cities, but we are seeing an openness in consumers to messaging that helps them find relief from their sleep apnea or sleep suffocation, and their lack of good quality of sleep that could be insomnia.

We're also continuing to build long-term value across our existing patient base to keep patients on therapy for their own personal health and for the good of the whole health care ecosystem. Research shows that patients who are enrolled in a compliant world-class resupply program are more likely to stay adherent to our therapy over the long term, and therefore, to have better health outcomes.

With the provision of just one additional item per patient per year achieved by more efficient outreach, we believe we can provide exceptional value to our home care provider customers and make sure that our patients have access to new, clean masks and accessories for better care and better outcomes for them and for their physicians.

Our focus is on driving increased patient adherence, improving outcomes. Programs like Brightree Connect, Resupply Complete and Resupply Essentials that are available for HME customers on any of the EHRs and ERPs they may use combined with personalized engagement through MyAir are delivering strong results with home care providers right here in the United States.

We have the opportunity to adapt and scale these types of resupply and adherence technologies globally to the 140 countries ultimately that Resmed is able to deliver care. Keeping patients on therapy is our moral imperative, our obligation here at Resmed, and it's firmly supported by scientific research.

During the quarter, the Lancet Respiratory Medicine Medical Journal published a landmark meta-analysis. And a meta-analysis has a higher clinical value than a randomized controlled trial, or RCT, that many people have considered and looked at as the gold standard for clinical trials. So in short, the Lancet publication showed that CPAP therapy reduces all-cause mortality by 37%. And it reduces overall death rates by 37%. And further, that study went on to say that CPAP therapy reduces cardiovascular mortality by 55%.

So CPAP reduces cardiovascular death rates by 55%. And this study wasn't small. This meta-analysis included over 1 million participants. So here at Resmed, we've known for decades that CPAP improves quality of life for sleep apnea patients. We've talked internally about these improvements in cardiovascular and mortality health.

But now we have proof that it helps people to ultimately live longer and to live better. These data show that CPAP is not just another medical therapy. It's literally a case of life and death. So here at Resmed, we make the smallest, quietest, most comfortable, most cloud-connected and most intelligent therapies for sleep apnea, insomnia and respiratory insufficiency.

We also have the market-leading software for health care technology that is delivered right where people want to be, which is in their own home, with home medical equipment, home health, home nursing and software that's beyond.

To our shareholders around the world, we are building on our Resmed foundation with our long-term leadership in our global markets. We now serve approximately 151 million lives through our hardware and software platforms. And we remain on track toward our ambitious goal of improving 500 million people's lives in 2030, half a billion worldwide. This quarter's results show the strength of our strategy, our investment in R&D, the clarity of our execution and the scale of our impact.

We launched a renewed and refreshed brand. We scaled digital diagnostics and titration tools. We expanded intelligent therapy. We activated new patients. And really importantly, we replenished supplies for existing patients worldwide.

And while doing all of this, we also delivered very strong financial results with top line growth and leverage down to the bottom line. I'd say this, we're just getting started. So thank you to every one of the 10,000 Resmedians around the world who made that possible and will make it possible our future growth.

And with that, I'll now hand the call over to Brett, who's is Sydney today for a deeper dive into our financials, and then we'll open the floor up for questions. Brett, over to you.

Brett Sandercock - Resmed Inc - Chief Financial Officer

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

We had strong financial performance in Q3. Group revenue for the March quarter was \$1.29 billion, an 8% headline increase and 9% in constant currency terms. Revenue growth reflects positive contributions across our product and resupply portfolio. Year-over-year movements in foreign currencies negatively impacted revenue by approximately \$13 million during the March quarter.

Looking at our geographic revenue distribution and excluding revenue from our Residential Care Software business, sales in US, Canada and Latin America increased by 9%. Sales in Europe, Asia and other regions increased by 8% on a constant currency basis.

Globally, on a constant currency basis, device sales increased by 7%, while masks and other sales increased by 12%. Breaking it down by regional areas, device sales in the US, Canada and Latin America increased by 6%, and masks and other sales increased by 13%, reflecting continued growth in resupply and new patient setups.

In Europe, Asia and other regions, device sales increased by 9% on a constant currency basis while masks and other sales increased by 7% on a constant currency basis. Residential Care Software revenue increased by 10% on a constant currency basis in the March 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 third quarter earnings press release. Gross margin increased by 140 basis points to 59.9% in the March quarter.

The year-over-year increase was primarily driven by manufacturing and logistics efficiencies as well as favorable shifts in product mix, partially offset by unfavorable foreign currency movements. Sequential gross margin increased by 70 basis points, primarily driven by manufacturing and logistics efficiencies.

We continue to make good progress on our gross margin expansion initiatives, and we are focused on making sustained long-term gross margin improvements. Looking forward and subject to currency movements, we expect our gross margin in Q4 FY25 to be broadly consistent with our third quarter gross margin.

Moving on to operating expenses. SG&A expenses for the third quarter increased by 7% on a headline basis and by 8% on a constant currency basis. The increase was predominantly due to increases in employee-related expenses and increases in marketing expenses, including costs associated with our recent global brand launch and demand generation activities.

SG&A expenses as a percentage of revenue improved to 19% compared to 19.2% 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 remainder of fiscal year 2025.

R&D expenses for the quarter increased by 9% on a headline basis and by 11% on a constant currency basis. The increase was predominantly attributable to increases in employee-related expenses. R&D expenses as a percentage of revenue was 6.5% compared to 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 remainder of fiscal year 2025. Operating profit for the quarter increased by 13%, underpinned by revenue growth and gross margin expansion.

Our net interest income for the quarter was \$1 million. Our effective tax rate for the March quarter was 20.1% compared to 20.3% in the prior year quarter. We estimate our effective tax rate for the full fiscal year 2025 will be in the range of 19% to 21%. Our GAAP effective tax rate for the March quarter was 12.6% as we recorded a net income tax benefit of \$30 million relating to interest on our tax refunds from the IRS.

We have treated this tax benefit as a non-GAAP item in our third quarter financial results. Our net income for the March quarter increased by 11%. The non-GAAP diluted earnings per share of \$2.37 also increased by 11%. Excluding the impact of investment portfolio write-downs in Q3 totaling \$6 million, earnings per share for the March quarter was \$2.41, an increase of 13% over the prior year period.

I would like to comment on the expected impact of US tariffs, particularly associated with the introduction of a 10% tariff on exports to the US from Australia and Singapore. These locations are where we currently manufacture most of our devices and masks for the US market.

We have for many years been importing our products under a chapter of the Harmonized Tariff Schedule of the United States that governs importation of certain medical devices, including equipment to treat sleep apnea and other chronic respiratory conditions. We have worked hard over the years to achieve that status and to maintain it for products we sell in the United States.

As a result, we have historically paid negligible duties or tariffs on the importation of most of our products. On April 5, US Customs and Border Protection issued a notice of implementation confirming that current tariff treatment of our products like ours continues.

Accordingly, we do not expect the introduction of US tariffs to have a material impact on our financial results. We also continue to improve the resilience of our global supply chain by expanding our manufacturing footprint in the US.

We expect to open our \$30 million advanced manufacturing facility in Calabasas, California in June 2025. This high-tech facility will almost double our manufacturing footprint compared to the existing footprint in our Chatsworth, California facility. Over time, it will significantly expand our production capacity in mask resupply for the United States.

Cash flow from operations for the quarter was \$579 million. This does include a refund of tax and interest from the IRS of \$107 million. Excluding the impact of the tax refund, our operating cash flow was \$472 million for the quarter, reflecting strong operating results and lower working capital. Capital expenditures for the quarter was \$21 million. Depreciation and amortization for the quarter totaled \$44 million.

We ended the third quarter with a cash balance of \$933 million. On March 31, we had \$675 million in gross debt and \$258 million in net cash, and we have \$1.5 billion available for drawdown under our revolver facility.

We continue to maintain a solid liquidity position and with robust operating cash flows and a strong balance sheet, we are well positioned to weather the current global uncertainty and respond to geopolitical challenges. Today, our Board of Directors declared a quarterly dividend of \$0.53 per share.

During the March quarter, we purchased approximately 314,000 shares under our previously authorized share buyback program for consideration of \$75 million. We plan to increase our ongoing share buyback program and purchase shares to the value of approximately \$100 million per quarter, commencing in Q4 FY25.

This will comfortably 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 will hand the call back to Salli.

QUESTIONS AND ANSWERS

Salli Schwartz - Resmed Inc - Chief Investor Relations Officer

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

Operator

(Operator Instructions)

Lyanne Harrison, Bank of America.

Lyanne Harrison - BofA Global Research - Analyst

Good morning, Mick, Brett, and welcome, Salli. Can I start with gross margin. Obviously, very strong gross margin expansion there. Can you talk us through in terms of each of the factors that attributed to expansion, how much of it was driven by each?

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

Brett, start off on that.

Brett Sandercock - Resmed Inc - Chief Financial Officer

Yes. Yes. Look, it's sort of said in the prepared remarks, the big driver was manufacturing and distribution efficiencies. So if I look through that, and these are all meaningful contributions. It's not just one factor. So we had, if you like, manufacturing efficiencies or better recoveries through the factories distribution and freight.

We're seeing improvements there coming through. The AS10 to AS11 transition to that platform continues, and we see some benefit with that as well. And then component costs as well are actually starting to contribute to that gross margin expansion as well. So those factors were all meaningful in terms of manufacturing and distribution efficiencies.

And the other one was product mix year-on-year as well with that the mask growth relative to device growth, we saw some favorable or positive product mix as well. And they were -- those were the key drivers of the margin expansion.

Operator

Margaret Kaczor, William Blair.

Margaret Kaczor - William Blair - Analyst

Hey, good afternoon, good morning, everyone. Salli, good to meet over the phone. Maybe a bigger picture question for a second. Certainly on the short term, we've heard the sleep labs are facing backlog of patients. So I would be curious if that's gotten better or worse.

But as we connect that concept with a series of investments, Mick, that you talked about pre and post diagnosis of sleep apnea, I'm curious what metrics you guys are tracking for these investments and when they should start to show up in results more meaningfully. I'm just trying to compare it to other growth factors that you guys did do, for example, resupply services that you provide in the past. Is this better or worse, slower, faster? Anything that you could provide. Thanks.

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

Yes, Margaret, it's a great question and it allows us to talk pretty broadly about demand generation, demand capture, demand curation, and ultimately, getting more of the over 1 billion people worldwide who suffer from the obstructive sleep apnea onto therapy -- sleep suffocation onto therapy.

As you mentioned, as I discussed in the prepared remarks, the launch of NightOwl, a fingertip sized home sleep apnea test should inspire the market. And I encourage the other players in diagnostics to make smaller and more dynamic and capable because the sleep lab backlogs are at all-time highs. We track the metrics of how long a patient waits from a referral to a diagnostic. And we've got really detailed metrics on that for both in-lab and home sleep apnea testing.

I can say this that during that COVID emergency, everyone embraced telehealth, everyone embraced digital health, and we saw almost every sleep lab around the world embraced home sleep apnea testing as well.

So we think that combination of us bringing NightOwl and making it available to everyone, sleep labs, IDTFs, primary care physicians across the board and empowering the sleep labs to take care of the toughest patients, the patients with overlap syndrome, where you have garden variety obstructive sleep apnea plus chronic obstructive pulmonary disease, you have diseased lungs and an obstructive upper airway.

And the gold standard therapy for that is a bilevel S or ST or even STA. And if you don't have the right titration equipment, you may not be able to get the patients through. And if you have too many garden variety I would say patients clogging up the beds, you don't get access to them.

So that combination of NightOwl for those who screened for likelihood of garden variety obstructive sleep apnea and then making sure the sleep lab beds have VPAP Txns in them, so they can get a CPAP and APAP bilevel S, ST, STA or if I have complex sleep apnea, an Adaptive Servo Ventilator, such as our market-leading ASV.

And so yes, it's a combination. So what metrics are we tracking, Margaret, we're tracking that time to titration, time to test, TTT, and we're also tracking time from that titration or test through to therapy onset. And what is if there's any churn, what is the churn in terms of patients dropping out from referral to diagnostic and from diagnostic to therapy and then from therapy set up to first 30 days, first 90 days, first one year, and then for life. Because as you know, we don't have a cure here.

We have a treatment for life. And Resmed's goal is laser-focused on that. overlapping, if you like, altruism of the patient has a better outcome, lower chance of death as we talked about through that landmark study in Lancet. And our ecosystem does well because obviously, HMEs and Resmed are able to overlap that altruism is with some profit motive and be able to have that resupply be profitable for the channel that allows us to then have revenue to reinvest into R&D, which we do at 6%, 7% of the revenue that we have. So great question, Margaret.

It's a complex one. We're tracking many metrics there. The ones we'll go public with are probably around the lines of, are we seeing a bend in that curve. Are we having less of a backlog? Are we getting more patients into the lab? And are we seeing an expansion of home sleep apnea testing from both pharma referrals and GLP-1, consumer tech as well as Resmed's own consumer demand generation. So we'll continue to update you as we go forward here. It's a marathon, not a sprint.

Operator

Davin Thillainathan, Goldman Sachs.

Davin Thillainathan - Goldman Sachs - Analyst

Hi, Mick and team. Just I guess a question on your share buybacks. You've increased the amount of debt to \$100 million, and you've done about \$75 million the quarter just passed. Could you talk to the confidence in -- in doing that in light of the demand environment you're seeing, just given some uncertainty now with tariffs as an example. And then also just related to that, the thought about capital allocation between buybacks and M&A, given the valuation sort of resets we've seen in the public markets?

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

So I'll go first, and then I'll hand over to Brett. Actually, Brett, why don't you go first on the increase in the share buyback because going from \$300 million a year to \$400 million a year, I think it's a good step up. There's obviously no artificial limit. Our Board -- my fellow Board of Directors and I are very supportive where it's accretive to give cash back to shareholders. You've seen that in our long running dividend program.

It's been up and share buybacks are an efficient way to give our cash back to shareholders. And we've shown that in the past and where it's accretive to us, I think we'll continue to do that, and you saw that in Brett's prepared remarks. So Brett, why don't you address that first? And then I'll talk a little bit about other uses for capital, particularly around M&A, tuck-ins and things like that.

Brett Sandercock - Resmed Inc - Chief Financial Officer

Sure. Thanks, Mick. Yes. And then, I guess overall, we're looking to balance that it will be around dividends. It will be buyback. It will be the tuck-in acquisitions, and Mick will talk about that in a little while. So we want to get that balance right. But at the moment, how we see it is we've got very strong operating cash flows and a very robust business. We have -- we're a net cash position on the balance sheet. So we've got an exceptionally strong balance sheet as well.

So the Board and Board management feel very confident of upticking that buyback from \$75 million to \$100 million a quarter, that it is accretive buyback. And I think overall, I feel that sort of gets the balance right in terms of capital allocation, buying back the stock there. So we've upticked that and we feel confident to do that.

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

Yes. And I'll just fully in line with Brett there, use of capital, dividend, share buyback, the best investment is investing back in the business, which we do at 6% to 7% back into R&D and 19% to 20% there in SG&A. But look, the money is not burning a hole in our pocket. Obviously, we generated incredible free cash flow of \$558 million for the quarter, \$1.6 billion of free cash flow in the trailing 12 months. But we do look at M&A as an interesting area to accelerate our growth towards our 2030 strategy.

So as we look at M&A, we're looking at tuck-ins sort of some 10%, sub-5% even of our market cap, sub 1%, I'd call it a definite tuck-in. There are a number on our radar screen nothing to announce here on this earnings call. It may not be too far before we announce something.

We are actively out there. But I'll say this, the acquisitions that we look at have to meet three criteria: number one, they're in line with our 2030 strategy, that they're going to help us be the world leader in sleep health, breathing health and health care technology delivered at home to the financials have to be there, that's being ROI has to get the ROIC to the WACC at an appropriate period of time.

We have to have free cash flow. And we have to be the best owner of that asset. We have to be a better owner of the asset than the current owners in terms of expanding globally, expanding it around the US and expanding to all the 140 countries we're in.

And thirdly, it's going to be a cultural fit. It's going to be aligned with Resmed's ethics integrity, doing the right thing when no one's watching and beyond. So watch this space, nothing to report, but I'm really excited to be upping the share buyback and watch this space for the tuck-in M&A over the coming 6 months, 12 months.

Operator

Anthony Petrone, Mizuho Group.

Anthony Petrone - Mizuho Securities USA - Analyst

Thanks for covering us in here. Sitting here this afternoon, I hope everyone is doing well. Maybe a question, Mick, just on we're now into the fourth or fifth month here where we have GLP-1s in the marketplace. Lilly was out there sort of indicating that it was pushing at the primary care physician level.

So just an update on the kind of state of the state as it relates to where GLP-1s are at the moment. And if you can opine on, will this out of the gate actually open up the new patient funnel for CPAP as we think it will based on our channel checks. Thanks again.

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

Yes, Anthony, thanks for the question. It's a really good one. It's linked to that strategic question around demand generation, how we get to the billion worldwide, how do we get to the 70 million-plus in the US who are suffocating where GLP-1s are rolling out the fastest. As you said, yes, look, Lilly Direct and a lot of this sort of work that they do around the GLP-1s in diabetes, obesity and now with the new IFU for sleep apnea are investing in this space.

They're not driving that sort of direct D2C campaign yet around sleep apnea. We believe they will probably start that 6 months post few somewhere between 6 months and 12 months. So we'll watch the space on that, but we're not waiting for them.

As you heard in my prep remarks, we're doing CME education, and we're going directly to high-volume GLP-1 providers. We're going to primary care physicians who they will target so that they're educated, and that they understand the gold standard treatment, CPAP, APAP bilevel that you can get 95% to 99% reduction in AHI with the gold standard, right?

All the clinical data, all the clinical literature. It's interesting. It's not branded Resmed. CME can't. But we did those experiments because it's right for those doctors to know and it's right to educate them on gold standard and how it can be used in combination with other therapies like pharmaceuticals and dental and other alternatives as well.

And so we're very open on that. We tracked that education to say, well, did we see a change in referral rates and/or prescription rates through to sleep labs and IDTFs and into the funnel. And the answer is yes, we did see it. And so as I said earlier, we'll do brand development and demand generation, but it has to have a ROI.

So early days that Resmed's own demand generation capturing curation elements are working, and they are working not just in our traditional channels and in consumer, but they're working at primary care physicians and PCPs.

And as we've said earlier, we're not going to target the 300,000-plus PCPs around. We're going to look at the 10% that the high-volume GLP-1. We look at the portion of them that already have existing relationships with IDTFs or sleep labs. And so we are working. We are seeing some movement to your question of how materially will it open up the new patient funnel and how fast will that go?

Well, Resmed has got a lot of models. We're investing a lot. And obviously, that's pretty proprietary. But I can tell you that, as I said in the prep remarks, there's a ROI here. The CAC versus the LTV works. And so our goal is to scale it appropriately city by city, region by region, doctor by doctor.

This is a very personal care. Patients take their sleep apnea care very personally and having a really good relationship with both their primary care physician and their sleep physician is really important to Resmed. We're supporting all of our channels and driving this demand gen. So great question, Anthony, and we'll continue to update you every quarter as to how this is going with demand gen, demand capture and demand curation.

Operator

David Low, JPMorgan.

David Low - J.P. Morgan - Analyst

Thanks very much. Mick, I'm going to stay on the same topic. I mean I look at the device growth in this quarter, and I know a quarter is a fairly short period, but we've seen a little bit of slowing. I heard the commentary that sleep labs backlogs are bigger than ever.

And then I see Resmed investing in NightOwl and focusing on perhaps a little bit more attention on the diagnosis channel. Can I get you to talk a little bit as to where you think market growth is how much of that headwind or how much of a challenge the backlog in sleep labs is and what Resmed is doing about it, please?

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

Yes, absolutely, David. Look, you've followed us for over a decade and so over that time that we're sort of back to that traditional seasonality that we saw here in terms of growth sequentially versus and getting back to what we sort of have always had in the 55 years I've been at the company, which is high deductible health plans, health savings accounts run through December and then a bit of a reset in March. But I can tell you, US device growth at plus 6%. US mask growth at plus 14%, pretty darn solid numbers.

Yes, David, look, it's very consistent with where we were last quarter, last 5 quarters, last 10 quarters where we said the actual market growth rate is mid-single digits on devices, high single digits on masks. And that's if Resmed just accepts market growth, sits back and let's just suffocating people, their bed partners hearing them storing, push them into the channel. We're not going to sit back and do that.

It's not how we operate. We're going out there doing demand gen, doing these tests and getting things going. And so that's how we're beating what market growth would be at mid-single digits and high single digits on devices and masks, respectively.

To your point, going back to a normal seasonality, that means we get the benefits of sprinting through to the December quarter too, right, as we go forward through this calendar year. and Resmed is looking at ways to do that.

To your point, yes, we're looking at that backlog. We're looking at patients wanting to come through the channel. And we're looking at rePAP opportunities and resupply programs. So it's not just about new patients. particularly on our masks and accessories side, it's really about driving Brightree ReSupply, getting what we used to call SNAP technology, but we're now calling resupply complete and Resupply Essentials out to every HME that is adaptable to a cloud-based tech like that.

I can tell you that their opportunities are huge and that we've got good tests that show we can get a ROI. As I've said before, I think we can accelerate above market growth by 50 basis points, 75 basis points, 100 basis points, maybe even 125 basis points over that mid-single-digit growth of devices and high single-digit growth in masks as we get more and more effective at this demand gen, demand capturing curation.

We're not doing it alone. We partner with the primary care physicians. We're partnering with the sleep physicians. We're partnering with doctors. And we're partner with our HME partners. One note, I'll say just a final answer to this question is we did this sort of direct-to-consumer empowerment in this last quarter and noting that on those sort of not late night television, all that sort of stuff that some of our competing technologies are doing, but really focus social media and streaming where we know and have already prescreened that this is a high probability candidate for being a sleep health concerned consumer and somebody has a propensity.

We're seeing them follow through and get referrals to primary care and the sleep physicians. And so we are going to be able to move on all these channels. Traditional sleep labs, home sleep apnea testing that they use and PCPs use and moving consumers into the channel.

If we get any upside from the pharma and consumer wearable side, it will be in addition to our efforts. But we're taking the bull by the horns here, and we're driving the demand gen ourselves primarily. Thanks for the question, David.

Operator

Saul Hadassin, Barrenjoey.

Saul Hadassin - Barrenjoey Capital - Analyst

Yes. Thanks for taking my question. Maybe just one for Brett. Brett, you comment on the gross margin into the fourth quarter being sort of broadly consistent with this quarter. Just based on where the euro is now and also that the Aussie dollar was a bit softer in the third quarter. Just wondering why your gross margin is not going to actually be materially higher in 4Q just based on those FX rates. Thanks.

Brett Sandercock - Resmed Inc - Chief Financial Officer

Yes. Thanks, Saul. Well, yes, I mean, I've gone with broadly consistent that if you look at that margin, I guess that gives you a bit of room by the side. And you're right, I believe we'll get some FX benefit if the Euro stays where it is going into Q4. So probably the bias to that is north of what we printed in Q3.

Operator

Andrew Goodsall, MST Marquee.

Dan Hurren - MST Financial Services Pty Ltd - Analyst

Good day. Sorry, it's Dan Hurren playing a role for Andrew Goodsall. We've had a few call problems. Look, I just wanted to go back to the tariffs. Look, I understand that you've confirmed the exemption, but I was just wondering if that exemption will apply or extend to all CPAP therapy coming into the US because we had heard that one of your competitor sales reps is saying that they're pulling a couple of their Chinese-made products on the back of this.

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

Yes, Dan. Look, really good question. So look, this tariffs work that we've been doing here at Resmed has gone back a long way. And if you look at the history of this, that was 1982 that this legislation was first put in place by the Reagan administration, was reaffirmed in 1989 under HW Bush, and then in 2009, Resmed actively worked with CBP, which is the Customs and Border Protection to get official recommendation for us to be with some tariffs at the time then in 2008, '09 that we're looking at being put in place. And we will give the full tariff exemption then.

We went back here in 2025, just earlier, as you heard from Brett, just earlier this month and got reaffirmation from Customs and Border Protection that our tariff exemption supply under this protocol, sometimes called the Nairobi Protocol, and we're fully there.

As for our competitors, particularly coming from hot band countries where tariffs are in the triple digits, I would ask you to go talk to them to speculate on that. I think it will be very different for players. We're coming in from Australia and Singapore, two very friendly US nations that have long-standing relationships and very good approaches. For those coming from China or Mexico or beyond, I think you've got to ask them and see where they're at.

But yes, we've been at this for decades, and we reaffirmed it just days ago, and we're running with it, and it's going to stay that way. I don't see anything changing on that. And if it does, we've got an incredibly strong balance sheet and all the other elements that we talked about earlier. But right now, we are running through the tape and doing what we do, taking care of patients.

And we're a US headquartered company these reinvestments in Calabasas in our distribution center in Atlanta, Georgia. We're looking at expanding our distribution here. So really strong relationship with the US government, really strong relationship with the Australian government and the Singapore government.

And those sort of public-private partnerships that were tested during COVID, Resmed stepped up, and I think we've got really good relationships. I love being on the Board of AdvaMed and having the chance to go to Washington, DC to Brussels, to Canberra to Beijing and talk to these folks. I'm actually the chair elect of AdvaMed, which means on January 1, 2026, I take over the chair of the AdvaMed group.

And so I'll be leading the industry, actually asking for tariff exemptions for med tech because I think it's the right thing to do. I don't need to beat competitors with a short-term advantage. I beat them anyway. And we'll fight to do those as the right thing on a humanitarian basis. But for right now, we are -- have our tariff exemptions in place, the ones we've had for decades, we affirmed just weeks ago. Thanks for the question, Dan.

Operator

Matt Taylor, Jeffries.

Matt Taylor - *Jeffries - Analyst*

Hi. Thank you for taking my question. Mick, I actually wanted to follow up on that. You have this unique position with AdvaMed and it is great to see the Nairobi protocol is still in place for your products. But I guess I was wondering, have you had any discussions or back and forth with folks in the government about broader exemptions for Medtech? What do you think the chances are for that to be broader than just the historical harmonized tariff schedule under the current regime?

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

Yes, Matt, look, it's a really good question. And I was saying refer to those specific country questions to my competitors. This one actually to refer to the CEO of AdvaMed, who's Scott Whittaker, who is the one negotiating directly with the White House. And obviously, we're all involved on the Board to do that. As I said, our goal there at AdvaMed is a 0 for 0 and a Medtech exemption.

We haven't seen progress in that as yet. I've seen a number of my Medtech peer CEOs reporting and some of them are talking about quantifying their specific tariff. Hit that they're going to have, and those are there for them. They're not there for us. We've been able to have this and reaffirmed it.

I will still -- I'll take the high road for the whole industry and advocate for that. The probability of success. I'll leave that up to you, Matt, and your amazing sell-side folks to run your models on that. But here at Resmed, with our business, we're looking very good right now, and we're just powering through this.

I think our experience of going through global financial crisis, COVID crisis, supply chain crisis. Our competitor out and we had to ramp up to the global manufacturing in Singapore, Sydney and Atlanta to where we are now has given us a lot of sort of stability and balance.

And I would say, ballast in the boat and a stoic nature for our company. We're going to get through this stronger and better than ever. As I said earlier, not just survive. We're going to thrive in environmental challenges, but they bring opportunities for people who are ready and opportunities is the overlap of everyone says it's luck when you get opportunities. And yes, there's a return on luck, but opportunity is the overlap of there's something there and the preparedness of the company. And Resmed is very well prepared. Thanks for the question, Matt.

Operator

Steve Wheen, Jarden.

Steve Wheen - *Jarden Australia Pty Ltd - Analyst*

Yes, thanks very much. A question for Brett. Just picking up again on the gross margin. You've obviously got a lot of those factors that you've been talking to for some time, all pulling in the right direction at the moment.

I'm just wondering what sort of runway you've got left to maybe be able to take that gross margin ignoring your comments on FX for the moment above 60%. So just trying to understand whether or not there's further shifts to see freight and if there's further manufacturing efficiencies or maybe even better procurement going -- that is an opportunity in the future?

Brett Sandercock - Resmed Inc - Chief Financial Officer

Yes, sure, Steve. I mean, we're 59.9%, we had. We're almost at 60% now, and we did see some pretty strong sequential increase in the GM as well Q2 to Q3. But as I mentioned in my prepared remarks, we do -- we're working on a number of initiatives. What we're really focusing on is building a good pipeline of margin improvement initiatives that we can roll out, not just for a quarter, but sustainably take a 6-month, 12-month, 24-month view on what we're doing.

And if we can -- if we build that pipeline of opportunities, and then we execute on those, then that should deliver those margin improvements year in, year out. So that -- and the areas we're focused on and probably the areas I mentioned, right, improving our manufacturing efficiencies and recoveries distribution and freight.

And we've made a lot of progress there. So we've got -- that opportunity, I guess, is less now than it was because it made a lot of progress, but there's still opportunity there to optimize on that. We're still running the AS10 and AS11 platform.

We are transitioning. So every quarter, we're moving more closer and closer to AS11 predominantly, although there will be a long tail in some markets on AS10, and it's still pretty popular product in the market. But that will help us.

And then on procurement components, designed for manufacturer for new products, for example, that come through some of the work that we might do in terms of life cycle engineering and how we improve the products in market as well.

So there's a number of opportunities that we're looking at. It's not just one, and it's not kind of he's one and that's easy and there you go, this margin improvement. But if you work on a number of items given our scale, we will get benefit and we'll get improvement in the gross margin. That's certainly what our supply chain team is focused on delivering.

And how do you do that? You do that by having a really solid long-term pipeline of opportunities as long as you're identifying them and executing on those then I'm confident we can continue to expand the gross margin and get that gross margin. I mean, our aim is to continue to improve it, and that would logically mean it has to end up in the 60s.

Operator

David Bailey, Morgan Stanley.

David Bailey - Morgan Stanley - Analyst

Yes. Thanks. Hi, Mick. Just interested in your latest thoughts on resupply rates for people who've or patients have initiated of GLP-1 therapy. Just wanted to test the thinking that patients who lose weight after being on a GLP-1 might cease their CPAP therapy. It's something that's sort of came up in conversations, but interested to hear how you think that might evolve over time and then maybe sort of reflecting or referencing some of the patient engagement initiatives you've got. Thanks.

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

Yes, David, it's a really good question. And as you know, we don't just hypothesize on this, we go and collect data, right? And so we're now tracking over 1 million patients, and we see that high start rate on CPAP therapy for a GLP-1 prescribed patient plus a PAP prescription.

We see that high reimbursement rate at 1 year, and we see a higher reimbursement rate and 2 years plus 3, plus 5, so plus 10 plus 3 plus 5, and we're tracking that and it's really consistent. Every quarter, we put stuff into it.

And we're not really talking about it much because it's not changing that much in terms of these are very motivated patients. And as they lose the weight, I've been asked qualitatively and I've even asked sleep physicians like give me the reason why -- why are they more adherent, what do you think it is? And they talk about lifestyle. These people eating better, feeling better, exercising more and therefore, sleeping better. They also talk about the low weight May for those on APAP and bilevels that are automated in terms of titration, maybe lowering their pressures, which can increase adherence as well.

And so lots of hypotheses out in the literature. We're going to see a lot of clinical literature in this space. But David, the big change, I think, this quarter is I mean if you look at the clinical data, a dental device might sort of 70% treat, an implant or a drug might half treat sleep apnea. There is only one gold standard that fully treats this sleeping disorder, this sleep suffocation disorder and that is positive airway pressure. And it's incredibly effective, completely non-invasive and completely reversible.

And so the risk for the patient and nothing. It's not like going under the knife for an implant or putting something into your body that could have all sorts of [effects]. And so the propensity to start is low, and we're tracking really carefully that adherence rate. And we're getting good results there.

So the real question is, how fast will they bring people into the funnel and can we expand the file, the home sleep apnea testing funnel with NightOwl, the sleep lab channel with better products like VPAP Tx more integration into Somnoware, into Brightree, into myAir, into AirView.

So we're sort of preparing the infrastructure, if you like, David, for the flow of patients that will come from this. Yes, so the anecdotal all people will lose a bit of wait and stop. It's just not happening. Talk to any patient, do the clinical research, look at the clinical data. If you don't believe our 1 million patients in our study, go interview a doctor who says, no, absolutely not.

They wouldn't think about it. They were actually doubling down on their use of it because they're feeling better across the board. And half treating suffocation is not treating suffocation. And the patients themselves know that, and certainly, the doctors know that. There's always churn, but the churn is lower in that group.

And our job is to drive up adherence programs, resupply programs, which lead to better outcomes. And now from our data leads to 37% lower death rates in the patients sticking to therapy. 55% lower cardiovascular death rates. This is a big deal. Thanks for the questions, David. I think, Kevin, we're right at time.

Operator

I think we have time for one more question from Brett Fishbin from KeyBanc Capital Markets.

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

Hey, guys. Thank you for fitting me in here at the end. Just I'll ask one follow-up on the gross margin trends. You called out manufacturing and logistics efficiencies as a primary driver of the sequential and year-over-year improvement. Just was hoping if you could maybe expand on like what some of the key initiatives in those buckets have been and where you're seeing the most impact. Thank you.

Brett Sandercock - *Resmed Inc - Chief Financial Officer*

Yes, sure. Sure, Brett. On the distribution and freight, we're really we're really seeing a strong improvement in our sea freight to airfreight ratio. So that's improved a lot. So we're pretty close to where we were pre-COVID actually. So that's been a strong driver which has been there probably for the last 12 months, 18 months, and that continues. So that's a big one there.

Manufacturing efficiencies, what it's about doing a bunch of small things really well and driving that and improving the process, improving routing times, for example, so doing a bunch of things, looking at overhead and so on. You also get benefits of scale, obviously, as we continue to grow. And the other thing on that is the AS10 and even the AS11 platforms are quite mature now.

So as they mature, you get just better and better at making those devices and improve along the way in a sense of continuous improvement programs, if you like. So they really drive that. And at our scale, can have quite a significant impact. So that hopefully gives you a little bit more color on kind of some of the drivers there.

Operator

Thank you. We 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 Farrell - Resmed Inc - Chairman of the Board, Chief Executive Officer

Yes. Thanks, Kevin. And thanks to the over 10,000 Resmedians, providing these products and services that we talked about to patients in over 140 countries worldwide. Thanks what you do today and every day. Thank you also to what you do for our patients, our physicians, providers, payers and health care communities and how you build value for our stakeholders, especially our shareholders who are listening to us today, which I know many of you Resmedians, are shareholders as well. We'll talk to all of our stakeholders here again in around 90 days. Thank you. Over to you, Salli.

Salli Schwartz - Resmed Inc - Chief Investor Relations Officer

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. Kevin, you may now close the call.

Operator

Thank you. That does conclude today's teleconference. The 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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