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ResMed, Inc. (RMD)

Q1 2027 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Q1 Fiscal Year 2027 Resmed Earnings Conference Call. My name is Shamali, and I will be your operator for today's call. At this time, all participants are in listen-only mode. Also, please note this conference call is being recorded. Later, we will conduct a question-and-answer session.

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

Sallilyn Schwartz

Chief Investor Relations Officer, ResMed, Inc.

Thanks, Shamali. I want to welcome our listeners to Resmed's first quarter fiscal year 2027 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 is available online now. As with last quarter, we will be displaying our earnings presentation during our prepared remarks, and then we will post the slides to our IR website after the conclusion of our remarks.

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.

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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.

And with that, I'll now turn the call over to Mick.

Michael J. Farrell

Chief Executive Officer & Chairman, ResMed, Inc.

Great. Thanks, Salli, and welcome to all. We're all together here in Sydney, Australia, and all fired up at 7:30 in the morning. During the first quarter of our fiscal year 2027, we delivered another strong set of results; 7% revenue growth on a core constant currency basis on the top line, 50 basis points of year-over-year gross margin expansion, and 14% growth on the bottom line in non-GAAP earnings per share. We also returned more than $1 billion to our shareholders during the quarter through both our quarterly dividend and our share repurchase, funded with the MatrixCare business divestiture proceeds and cash on hand.

Resmed's fiscal year 2027 is off to an excellent start. I'd like to take this opportunity to thank the global Resmed team for their unwavering dedication to our patients, our providers, and physicians. We're building the world's leading digital health ecosystem, encompassing sleep health, breathing health, and health care technology delivered in the home.

As we move throughout our fiscal year 2027, we're focused on three key areas. One, on our continued innovation and operational excellence to support Resmed's ongoing growth and transformation work. Two, on active portfolio management across our business lines. And three, on leveraging our significant free cash flow to both reinvest in our business and return capital to shareholders.

Resmed is committed to innovation excellence across the sleep health ecosystem. This means ongoing innovation in our products and bringing together devices, masks, digital tools, and provider support to create a more connected therapy experience and to help people stay engaged with their therapy over time.

Last quarter, I talked about the launch of the AirCurve 11 ST and ST-A platforms into the US market. The ST and the ST-A are bi-level device platforms for patients who need more pressure support or have more complicated breathing disorders, including central sleep apnea, complex sleep apnea, and COPD plus OSA, which is known clinically as overlap syndrome.

The AirCurve 11 is built on our market-leading Air11 platform that has CPAPs, APAPs, and now these advanced bi-levels, allowing us to leverage a shared technology and digital health ecosystem across a broader range of patient populations. This helps simplify workflows for providers while creating a more consistent experience for patients.

We've also launched, just this week, a third fabric mask into the market. We call it the AirTouch F40 in the US. AirTouch F40 brings Resmed's proprietary ComfiSoft fabric cushion to a minimalist design that is intended to adapt to a person's facial contours dynamically as they move throughout the night.

In a Resmed study, 91% of patients rated the AirTouch F40 as comfortable or very comfortable at initial fitting. This technology can help patients get adherent with less provider effort and can drive patient and provider preference for Resmed products.

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On our most recently launched fabric masks, we have now shown 6% increase in therapy adherence for the fabric masks versus their silicone mask equivalent. This is market-leading technology, and we continue to bring these products to market. Watch this space.

On the software side, we recently launched a refresh of our myAir patient app. We're now well over 13 million downloads of our myAir app, and we'll talk about that later. But in addition to the enhanced user interface on myAir and the optional dark mode, new features include an updated myAir Score, a nightly timeline of events, and therapy control to adjust comfort settings from the app, giving each user a more personalized experience.

myAir now also includes a service that we call Equipment Care, and it's launched in a number of geographies, and it makes it easier for patients to request resupply by showing a visual countdown for each mask or other device accessory. It can send timed reminders when masks and accessories are eligible for replacement, helping encourage action by patients and increasing convenience for the patient and making it easier for the provider. Watch this space as we increase availability of this type of service for consumers who want to access better resupply.

Also on the myAir app, our generative AI-powered digital sleep coach that we call Dawn, has now seen more than 2.1 million inquiries from patients already on therapy. That's up over 40% just from last quarter. This demonstrates that patients are very curious about their CPAP therapy and they want to learn more.

Dawn helps patients find support wherever and whenever they need it, significantly reducing customer service inquiries to Resmed, but also reducing customer service inquiries to Resmed's HME partners and channel partners. Delighting patients and saving costs for HMEs is a double win for Resmed through this innovative Gen AI tech.

We will continue to evolve myAir based on consumer and provider feedback. Our aim is to bring clearer therapy insights, to bring more intuitive support, and to bring increasingly personalized experience to engage patients throughout their therapy journey. Together with AirView, Resmed's remote monitoring platform for health care providers, myAir has been shown to meaningfully improve therapy compliance from 70% up to 87% just by adding myAir for the patient.

One further update regarding our FDA-cleared AI-enabled digital medical device that we call Smart Comfort. We launched this just earlier this calendar year. Smart Comfort was built on millions and millions of nights of Resmed sleep data to recommend personalized adjustments to comfort settings like temperature, humidity, and it's applied on new AirSense 11 users. We predicted in previous quarters that increased comfort could lead to increased adherence, and it turns out that prediction has come true. Early real-world data shows a 4.3% increase in 30-day compliance versus the device's default settings.

Smart Comfort has been selected as a special mention in TIME Magazine's Best Inventions of 2026. But more important than that, it's evolving our products to deliver increasingly personalized therapy to patients, and it's a winning use case for AI. Resmed's digital health ecosystem is second to none, providing sustainable value for patients, for physicians, for providers, even for payers, and beyond.

On the operational excellence side, we were able to execute some of our planned supply chain initiatives more quickly than we predicted, and we're able to re-phase some of our planned expansion initiatives, particularly in Indianapolis, Indiana, allowing us to exceed our own expectations for gross margin for the quarter. The transformational pipeline of initiatives, what I call our productivity pipeline for our supply chain team, they built it

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and it remains robust and multiyear, underpinning our ongoing confidence that we can deliver double-digit basis points improvements in gross margin every year, every fiscal year through 2030.

I'm also proud to share that we've produced our first made-in-America CPAP device, an AirSense 11 has come off the line at our Atlanta, Georgia facility. Having this capability for US manufacturing gives Resmed additional flexibility to optimize operations as needed across our global manufacturing footprint. We also continue progress on our new Indiana, Indianapolis-based distribution center, which, once it's fully operational, will enable faster delivery to our North American customers.

Resmed has a significant and growing US manufacturing presence, and we continue to invest in expanding our capability to serve our highest-volume market. With regard to our government advocacy work, I can tell you that we are actively engaged with the US government as well as industry partners to support policies that strengthen domestic US manufacturing and global supply chain resilience, while protecting patient access to our lifesaving therapy in the US and around 144 countries worldwide.

Alongside these developments in the US, we are expanding our Asia manufacturing capabilities, including at our largest manufacturing facility in Singapore and our facilities in Malaysia that are joined to the Singapore operation. Together with our Sydney, Australia; Calabasas, California; Atlanta, Georgia, and our newly established Indianapolis, Indiana facilities, our global operations footprint positions us extremely well to serve our growing customer base and patients around the world.

Over the past quarters, I've highlighted our initiatives to increase awareness of sleep apnea and the impact that chronic poor sleep has both on the individuals and health care system, but also on their partners and families and workmates. As you know, we've been excited to see growing appreciation of the importance of sleep health, driven by consumer wearables, including Samsung Galaxy Ring that just this week, I think, actually overnight, got FDA clearance for sleep apnea detection from their Samsung Galaxy Ring, but also from Big Pharma and the GLP-1s, the investment that particularly Lilly is making, but also Novo in driving patients into primary care.

Earlier this month, we announced a collaboration with smart mattress sensor maker Eight Sleep. Their Eight Sleep Pod users in both the US and Australia markets will be able to securely connect their myAir sleep insights to the Eight Sleep app, giving them a more complete picture of their sleep health. Here in Australia, Eight Sleep users whose sleep data shows trends such as heavy snoring may be guided to Resmed's sleep health resources, including sleep assessments and the pathway to diagnosis and therapy and beyond. This consumer sleep wellness collaboration adds to our partnership with smart ring maker, ŌURA, that I discussed during Resmed's last earnings call.

We've continued to see strong traffic to Resmed's website from ŌURA app users. As of September 30, approximately 28,000 ŌURA users, more than double what we had seen at the end of July, have come to Resmed.com from a customized tile within ŌURA's own app. Many thousands of those users have taken the Resmed's Sleep Assessment right there on Resmed.com. Approximately 72% of those assessed identified themselves as previously undiagnosed for OSA, highlighting the potential to turn sleep insights into action and helping more people get evaluated and ultimately treated for their sleep apnea.

Another sleep pathway enabler are these new medicines – well, not so new, maybe 10, 15 years in the market, but newly ramping up GLP-1s. As we've discussed before, patients on GLP-1s both initiate CPAP therapy more and stay on CPAP therapy longer, and they buy more stuff.

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As an update to our analysis that's built from a claims database of tens of millions of patients, our specifically analyzed cohort now includes more than 3.3 million de-identified patients. We are still seeing that patients who have scripts for both CPAP and GLP-1s are more than 11% more likely to start on CPAP therapy than patients who have a script for CPAP alone. They are also more than 3% more likely to have a resupply event at one year, and more than 7% more likely to have a resupply event at three years. The CPAP plus GLP-1 and the CPAP-only cohorts are measured on the same basis; i.e., patients who stop CPAP remain in the base population for both groups.

Sleep apnea risk factors include age, gender, craniofacial geometry, as well as weight. OSA very often needs to be treated even after very significant weight loss, as we've seen in the clinical literature, the real-world data that we show, and in the numbers if you look at our incredible mask growth over time.

Resmed continues to selectively invest in marketing that expands our awareness, reduces barriers to diagnosis and treatment, and helps more people understand the life-changing impact of better sleep, better breathing. You may have seen some of our campaigns underway. I'll highlight just three of them quickly here on our call.

Number one, our so-called CPAP Baddies campaign is helping normalize CPAP therapy through authentic community-driven conversations, making treatment more approachable and encouraging more people to start and stay on therapy. It's really creating a CPAP community of people who are proud of changing their lives.

Number two, our In Bed With interview series features sleep doctors, sleep physicians, and other sleep wellness thought leaders to help more people recognize symptoms of sleep apnea, to seek care, and ultimately, to improve long-term clinical outcomes as well as quality of life outcomes.

And thirdly and finally, our athletic partnerships, most recently with a NASCAR driver, Tyler Reddick, enable us to reach new audiences with powerful, real-world stories that demonstrate how effective sleep therapy can improve energy, performance, and personal and family life.

It's interesting; the most-watched episode featuring Tyler Reddick, who's a world-class professional driver, was not about his improvement in sports performance and winning the Daytona 500 and the first three NASCAR races of the season, creating new sports records for that sport; the most watched podcast and viral social media was about his wife, Alexa, sharing that Resmed's CPAP treatment made him a better husband, a better father, and a better friend. The words from patient 1 back here in Australia in 1989, Eddie Merck, who said, this therapy saved my marriage, saved my job, saved my life, come to mind. It's great to have that story retold from many perspectives and from a young racecar driver here right in 2026.

Okay. Together, these sort of consumer engagement initiatives are helping Resmed interact with more people, driving greater awareness and adoption. And ultimately, they fulfill our mission of improving lives through better sleep and better breathing, longer life, which is longevity, life span, but more importantly, health span, which is living longer with a good quality of life.

Greater awareness in the clinical community is another key element to ensuring consumers have ready access to information and pathways to diagnosis and therapy. Our continuing medical education, or CME, programs include sleep medicine physician society-approved guidelines. Obviously, that includes the benefits of CPAP, APAP, and bi-level therapy as the clinical gold standard, the frontline treatment for any patient diagnosed with sleep apnea.

Our sleep apnea education courses have now been completed by approximately 108,000 times by more than 63,000 unique clinicians. We've been tracking the number of referrals for home sleep apnea tests and

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prescriptions for positive airway pressure both before and after training. It's great to see that post-training, these clinicians are not only saying they intend to change their clinical practices, they are actually changing them, and it's impacting patient flow.

Okay. Our second priority is active portfolio management. On September 1, we closed on the divestiture of our MatrixCare business. We continue to expect this move to accelerate the growth and profitability of our core Residential Care, or RCS, business. For fiscal year 2027, we are still planning for our RCS business to deliver high-single-digit revenue growth, with operating leverage reflecting both improved mix and execution focus. We're off to a solid start, with high-single-digit growth powered by our Brightree and MEDIFOX DAN product lines.

We're also making good early progress integrating our Nidra, or restless legs syndrome therapy that we acquired with a company that was called Noctrix from the Stanford's Biodesign incubator. Nidra's commercial footprint is expanding rapidly, albeit from a small base. We're keenly focused on increasing commercial coverage for Nidra and supporting expanded access to this novel, noninvasive, sleep physician-prescribed, DME-channel delivered, VA-channel delivered [ph] to patients (00:19:24) therapy.

Prioritizing patient care is also central to our ongoing Astral Field Safety Corrective Action. We're responsibly supporting patients, including patient-centric and quality-focused completion of the ongoing action. We also recognize that home care provider customers need to be able to plan for future ventilation needs. That commitment is why we recently announced that we will no longer sell the Astral device. We're focusing all available components to service Astral devices for existing patients, with prioritization based on the highest clinical acuity and guided by clinical judgment. We're going to execute the best recall in the history of life support ventilation. We took $42 million reserve, and I've seen the latest data and it's very good. We're executing very well in that Field Safety Notice.

We intend to keep allocating capital towards our high-growth, high-return opportunities. This allows us to accelerate the expansion of our digital health ecosystem, to support continued innovation at scale and to drive strong progress towards successful execution of our 2030 strategy. In addition to investing in our business through continued innovation partnerships and M&A, we're also maximizing the return of capital to our shareholders.

During the first quarter, we bought back approximately $936 million of our stock through a combination of open market repurchase and an accelerated share repurchase program using the proceeds from our MatrixCare business divestiture. Together with our dividend, we returned more than $1 billion to our shareholders this quarter. This is a record for Resmed and reflects our conviction that investing in our company is a compelling high return on investment opportunity.

Before I turn the call over to Aaron, I'd like to take this opportunity to thank Ron Taylor, Resmed's current Lead Independent Board Director. He recently announced his retirement after more than 21 years of service. Ron will not stand for reelection at our upcoming Annual General Meeting of Stockholders, which will be held on November 18, 2026.

During his tenure, Ron helped guide Resmed's governance and strategy, providing thoughtful leadership and independent oversight during a period of significant growth and transformation for the company. Ron's integrity, sound judgment, and unwavering commitment to our patients, employees, and as a representative of shareholders, helped Resmed stay what it is, which is a strong company, innovating and driving growth.

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My fellow board members and I have appointed Carol Burt to serve as our next Lead Independent Director, effective November 15. Carol has served on Resmed's Board since 2013 and currently chairs the Nom and Gov Committee. She's also a member of the Audit Committee, as well as the Compliance, Privacy, and Quality Committee.

Carol's extensive board leadership experience, extensive governance experience, and extensive health care industry, including payer knowledge, position her very well to serve as Resmed's next Lead Director. I look forward to continuing to work closely with Carol and the entire board as we advance our strategy and create long-term value for our shareholders.

Let me close with this. Resmed has a tremendous market opportunity, a leading market position, a very strong balance sheet, and a strong track record of successful execution. We remain very excited about our 2030 strategy, and we're confident in our five-year outlook that features high-single-digit top line revenue growth and bottom line earnings growth that's higher than revenue growth with leverage. We are committed to keep delivering to the benefit of all of our stakeholders, and most importantly, for the number one stakeholder, our patients.

With that, I'll turn the call over to Aaron to go through a deeper dive into our financials, and then we'll open up the floor for Q&A. Aaron?

Aaron Bloomer

Chief Financial Officer, ResMed, Inc.

Great. Thanks, Mick. In my remarks today, I will provide an overview of our results for the first quarter of fiscal year 2027. Unless otherwise noted, all comparisons are to the prior year quarter and on a non-GAAP basis, in core constant currency terms, where applicable. We encourage you to review the updated detailed layout for our reconciliation of the non-GAAP to GAAP numbers in our first quarter earnings press release.

We had a good start to our fiscal year 2027. Total revenue for the first quarter was $1.4 billion, a 6% increase on a reported basis and 7% increase on a core constant currency basis. As a reminder, core constant currency excludes our acquisition of the Nidra restless legs syndrome therapy and includes only two months of the MatrixCare business revenue in both fiscal years 2026 and 2027. Growth in the quarter reflected solid demand across devices, masks, and our remaining RCS business. Non-GAAP earnings per share increased by 14% to $2.91 per share.

Moving to revenue by business and geography, starting in the Americas. Sleep device revenue increased by 6%, life support device revenue declined by 94%, and masks and other revenue increased by 10%. In the Rest of World, sleep device revenue increased by 13%, life support device revenue declined by 79%, and masks and other revenue increased by 11%.

Rest of World sleep device growth in the quarter was supported in part by a fleet refresh in France, which is weighted towards the first half of the fiscal year. The total contribution from pricing was minimal this quarter. In the appendix of our earnings presentation, we've provided historical revenue figures for both sleep devices and life support devices.

Residential Care Software revenue declined by 7% in the first quarter on a headline reported basis and increased 5% on a constant currency basis. Removing the MatrixCare business that we've now divested, the remaining businesses of RCS, Brightree, and MEDIFOX DAN increased by 8%.

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Non-GAAP gross margin was 62.5% in the first quarter, up 50 basis points year-over-year. The quarter's results was driven by productivity gains across procurement, manufacturing, and distribution, along with favorable product mix, more than offsetting foreign exchange headwinds. Versus our initial expectations, our Q1 gross margin benefited from the phasing of supply chain expansion investments, primarily related to the continued buildout of our new US facility in Indiana.

We continue to experience the impacts of inflation, especially in some of our electronic components, and expect these impacts to build throughout the remainder of the fiscal year. We are very proud of the work our supply chain team is doing to drive productivity and efficiencies, despite the current inflationary environment.

Moving on to operating expenses. Non-GAAP R&D expenses for the first quarter increased by 16% on a reported basis and 14% on a constant currency basis. R&D expenses were roughly flat sequentially, excluding the impact of MatrixCare. The year-over-year increase was primarily driven by continued investment in our next-generation device and mask platforms, along with expanded development of AI-enabled tools that streamline the patient journey, helping patients start therapy sooner and stay on it longer.

Non-GAAP SG&A expenses for the first quarter increased by 6% on a reported basis and constant currency basis. The Q1 increase reflected investments we're making to drive growth, including marketing campaigns, and by Nidra, partially offset by productivity gains that we're driving in our support functions.

As you saw in the earnings release, during the quarter, we recorded restructuring and transformation-related charges of approximately $29 million, as well as approximately $10 million of acquisition and divestment-related expenses associated with the MatrixCare business. We are embarking on an exciting growth and transformation journey. This quarter, we identified early opportunities to address stranded costs. We'll have more to say on this effort and the benefits we expect to recognize in the coming quarters.

Non-GAAP operating margin for the quarter was 35.8%, down 30 basis points year-over-year. Net interest income for the quarter was $16 million, primarily driven by the ongoing benefit from the Singapore net investment hedge. Net other income also reflected a gain of approximately $6 million from our ownership stake in Apnimed as a result of its initial public offering.

Our non-GAAP effective tax rate for the first quarter was 21.2% compared with 22.3% in the prior year quarter, reflecting a more favorable jurisdiction mix of earnings. Non-GAAP diluted earnings per share increased by 14% to $2.91, driven primarily by revenue growth, gross margin expansion, and a lower diluted share count. This growth was partially offset by an approximate $0.05 headwind from the MatrixCare divestiture and Nidra acquisition, as well as an approximate $0.08 headwind related to movements in foreign exchange rates.

Free cash flow for the quarter was $374 million, down year-over-year, primarily driven by higher inventory levels that we have strategically built in light of the external environment and an increase in cash tax prepaids. Between fiscal year 2025 and 2026, we received significant US tax refunds, which were netted against prepaids in the presentation of free cash flow. This quarter represents our expected steady state for prepaids moving forward.

We ended the first quarter with a cash balance of approximately $1 billion. During the quarter, our share repurchases totaled $936 million. Along with our dividend, we returned more than $1 billion to our shareholders in Q1, a more than fourfold increase over Q1 fiscal 2026.

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Turning to guidance. As a reminder, for fiscal year 2027, we are now providing full year guidance for revenue and non-GAAP earnings per share on both a core constant currency and reported basis. We are pleased with our solid start to fiscal year 2027 and are reiterating our full year revenue and earnings per share guidance.

We continue to expect year-over-year revenue growth in the range of 5% to 7% on a core constant currency basis. As a reminder, this includes an approximately 130 basis point headwind, or around $75 million, stemming from our decision to no longer sell Astral. When excluding the impact of Astral, our core constant currency revenue growth would range from 6.3% to 8.3%.

There are several key assumptions underpinning our revenue guidance. First, net price realization, as we continue to roll out global pricing increases we discussed last quarter. Second, successful execution and impact from our new marketing campaigns that Mick shared in his remarks. Third, expected back half pressure in our Rest of World sleep devices as the France fleet renewal concludes. And finally, the broader external environment, including the continued impact of inflation on our customers, which we will continue to monitor.

Our core constant currency growth includes range guidance translates to reported revenue in the range of $5.75 billion to $5.85 billion. This assumes an approximately 60 basis point FX headwind based on rates as of quarter-end. We still expect non-GAAP earnings per share to be in the range of $12 to $12.25, an increase of approximately 7% to 10% on a reported basis. Excluding the dilution from the divestiture of the MatrixCare business and the acquisition of Nidra, guidance implies year-over-year core EPS growth would be in the range of 12% to 14%.

For gross margin, we still expect low-double-digit basis point margin expansion in fiscal year 2027. We may see some variability quarter-to-quarter based on inflationary impacts and timing of our supply chain initiatives and facility expansions. Our expectations for a slight increase in operating margin percentage in fiscal year 2027 remain unchanged. We are laser-focused on achieving operating leverage by driving productivity and efficiency. This will enable us to reinvest back into high-growth and high-ROI opportunities in both R&D and marketing.

In Q1, we made significant progress towards returning more than $1.85 billion to shareholders over the course of fiscal year 2027, including both share repurchases and dividends. This remains our expectation, and we will continue to be opportunistic with our repurchase activity as the year progresses. We still expect capital expenditures in the range of $160 million to $180 million as we expand and further automate our US and global manufacturing footprint to address the growing demand for our products.

While we do not provide quarterly guidance, we would like to share some Q2 trends. Resmed has historically experienced a mid-single-digit sequential increase in total revenue from fiscal Q1 to Q2, and we expect a similar seasonal pattern to occur this year, excluding the two months of MatrixCare revenue that we had in Q1. We expect non-GAAP gross margin percent to be down slightly sequentially as certain expansion-related costs impact us in Q2 rather than in Q1. We also anticipate R&D expenses to be largely flat from Q1, and SG&A expenses to sequentially increase, tied to the marketing campaigns Mick referenced earlier. We will continue to drive operating leverage across our support functions. We also expect net other income to be down roughly $10 million from Q1.

Last quarter, I shared my key priorities; driving sustainable growth, supporting the continued transformation of Resmed, and maximizing return to shareholders. We've made progress on all three in Q1: the marketing campaigns and myAir updates aimed at helping patients start and stay on therapy; partnerships we've entered into with companies like Eight Sleep and ŌURA to convert new patients entering into the funnel; and innovative

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new product launches, such as the AirTouch F40, all support patients in their journeys towards better sleep health.

At the same time, we are embracing change inside Resmed and creating a culture of continuous improvement, driving efficiencies, actively managing our portfolio, and selectively evaluating M&A opportunities, while leveraging AI and technology to transform and improve productivity. We also returned over $1 billion in cash to shareholders this quarter, a more than fourfold increase over last year. Looking forward, we will continue to prioritize reinvestment in the business, while maintaining our commitment to the dividend, opportunistic share repurchase, and an optimized capital structure.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from the line of Chris Cooper with JPMorgan. Please proceed with your question.

Chris Cooper
Analyst, JPMorgan Securities Australia Ltd.

Q

Good morning, everyone. Thanks for taking the question. Maybe just perhaps for Aaron on the gross margin. So, you were guiding to a slight contraction year-over-year. You came in some way ahead of that with a 50 basis point increase, non-GAAP. I know, last quarter, you sort of alluded to it there. There was a lot of discussion on pricing. You were keen to emphasize these increases were very modest. And you also guided us, I think, to think that they don't really begin to benefit the P&L until the second quarter. So, just wanted to understand, have these price rises benefited earlier than expected? Should we think about further benefit building from here through the year? I think, just at the end there, you said there was some restructuring costs that moved from the first quarter to second quarter. So, maybe just a bit more color on what drove that gross margin ahead of expectation, please.

Aaron Bloomer
Chief Financial Officer, ResMed, Inc.

A

Hey, Chris. So, first, I mean, we have an unbelievable manufacturing and supply chain team. Obviously, it's a very dynamic environment out there, and the team just continues to rise to the occasion and perform. It was really incredible to see firsthand the productivity pipeline that continues to build and expand. We have hundreds of specific initiatives, and the team has really done a phenomenal job of building that culture of continuous improvement. Specific to Q1, the margins expanded about 50 basis points. And again, a testament to the productivity gains across the entire manufacturing and supply chain team. We benefited a bit from the continued transition globally to AirSense 11. We talked about slight FX headwinds that we had in the quarter.

But as mentioned in the prepared remarks, I think the biggest thing kind of that benefited us in Q1 relative to expectations was just phasing from some of the timing of the supply chain expansion investments, primarily the US buildout of our facility in Indiana. And those costs are now expected in Q2. And so, that's the biggest factor. That's about a 30 basis point headwind quarter-over-quarter from Q1 to Q2. Price, very much in line with what we expected to begin with, very, very modest for the full year, and as I mentioned in prepared remarks, really no contribution from pricing in Q1, and we would expect that to build as we progress throughout the year.

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Operator: Thank you. Our next question comes from the line of David Low with UBS. Please proceed with your question.

David Low
Analyst, UBS Securities Australia Ltd.

Q

Thanks very much for taking my question. Could we just talk a little bit about the Rest of World? We haven't heard from Resmed much in the past on what happens in some of the other lesser markets, and I see you've called out the France fleet renewals. [ph] Could you talk and (00:37:28) give us a little bit of background on that and whether there's any other fleet renewal programs that we should be aware of, please?

Michael J. Farrell
Chief Executive Officer & Chairman, ResMed, Inc.

A

Yeah. David, thanks for the question. Yeah, look, Europe, Asia, Rest of World, 140-plus countries, so much going on there, but with sleep devices growing in Rest of World plus 13%, we thought it was very important to call out. If we consider globally, mid-single-digit growth in our devices, clearly, they're a number of hundreds of basis points above that, and so we wanted to call out what's happening in France.

What happens there is there's differentiated reimbursement in France for a cloud-connected CPAP versus a non-cloud-connected CPAP, and when they reach their five-year life cycle, the customers, the distributors there have to renew their fleets to make sure that their patients have the latest and greatest technology and that they get appropriate reimbursement for the services they provide. And that renewal, primarily from AirSense 10 now to AirSense 11s, has been ongoing in France for a while. Obviously, that is an S-curve, and it goes for a while, and then it plateaus out. And so, we just felt like it was important to call that out.

And to your question and point, we do have other fleet-based markets like Japan and a few others around the world. And we will, as appropriate, when we see outperformance like that, call out what the outperformance is, what it looks like, and that we would normally expect sort of mid-single-digit in global device revenue.

Thanks for the question, David, and we can go into more details as we see other areas, and we will continue to highlight different countries and different things happening, as they become material to the business and to our strategy. Thanks for the question.

Operator: Thank you. Our next question comes from the line of Craig Wong-Pan with RBC Capital Markets. Please proceed with your question.

Craig Wong-Pan
Analyst, RBC Securities Australia Pty Ltd.

Q

Hi. Good morning. Thanks, Mick, for outlining all the marketing and partnership initiatives that you're using to drive growth and awareness. I just wanted to understand if they provided much benefit in the quarter to your top line, and when do you think they could provide a meaningful impact?

Michael J. Farrell
Chief Executive Officer & Chairman, ResMed, Inc.

A

Yeah. Craig, it's a great question. And I said this last quarter, I think I've said it every quarter the last number of years, which is we have to fight for growth every quarter. And a lot of that is in – not so much top of funnel, which is awareness now around sleep suffocation, sleep apnea, how important it is to treat, good sleep and good breathing for good health, and lower cardiovascular risk, diabetes risk, and solid cell tumor cancer risk, dementia,

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Alzheimer's, and so on – it's middle of funnel, where somebody is aware from their watch, their wearable, or a pharma company that there's an issue, and they turn up to that primary care physician.

And so, to your point, we updated the CME numbers. Lots of education happening there. We're tracking pre and post that, 63,000 unique clinicians in the primary care area, whether that's an NP, a PA, an MD, or a nurse, making sure that when they see the positive diagnosis, they walk that patient through the education and their pathway to gold standard therapy. So, it's very early days. I think, on the ŌURA partnership, we're in the tens of thousands. Eight Sleep, we just announced. Yes, we have connectivity into Apple Health and Google Health through APIs, and Epic and Cerner, creates a huge ecosystem. But as for driving material contributions in Q1, no, not yet.

But watch this space, throughout this fiscal year, and Aaron talked about this in his sort of, oh, no, what would get us to the 7%, what would get us to the 5%? That 7% revenue growth, that's about strong execution in our marketing programs and achieving great results. And 5% is if we don't achieve the great results that our pilot trials have shown us. I'm an optimist, eternal optimist, and I love lucky 7, we're aiming for that. But it's a quarter in, quarter out fight, and we've got a lot going. No material contribution in Q1, but as we look at fiscal year, I hope to be here in 12 months' time talking about some good material contribution from our marketing programs.

Anything I missed there, Aaron?

Aaron Bloomer
Chief Financial Officer, ResMed, Inc.

A

There's such an opportunity on the top of the funnel, like Mick talked about. And so, we're laser-focused on these critical investments targeting at the middle of the funnel. And this isn't about growth in a quarter or even a year. This is about creating durable growth that's sustainable over time. But as like Mick said, it's going to take some time for some of these programs, the marketing campaigns, the myAir stuff that Mick talked about. It's going to take some time for those to be able to start to contribute.

Operator: Thank you. Our next question comes from the line of David Rescott with Baird. Please proceed with your question.

David K. Rescott
Analyst, Robert W. Baird & Co., Inc.

Q

Great. Thanks for taking the questions here, and congrats on the results. I wanted to ask about the upcoming data I think we're seeing on the pill form of the GLP-1 drug, and it sounds like there's been a pretty consistent adherence rate and new start rate that you've been calling out every quarter so far. So, just wondering, if at all, there's anything you're considering in your mind around if or why or why not there would be a different maybe impact as you think about either the types of patients that could be coming in for the pill form of drug, or based on where within which care setting these patients are attending to come in through, both from a headwind, I guess, and then that market expansionary potential that you've talked about in the past perspective? Thank you.

Michael J. Farrell
Chief Executive Officer & Chairman, ResMed, Inc.

A

Yeah. David, thanks. It's a good question. It's quite a nuanced question. When you think about the injectable GLP-1s, they've tended to bring in a younger and a more female demographic into primary care physician. And for the goal, the advertising that the pharma company is doing is to bring them in for that injectable. And so, when I talked about earlier, our middle of funnel work, it's making sure that PCP is educated about gold standard, that

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they know the only way to 100% eliminate apnea is to create a pneumatic stent that keeps the tongue off the uvula, and all the clinical data, and that they are sort of obligated – well, they are obligated to write a script for PAP. And so, as we focused on that, we've actually seen good movement.

The pill form, if I read the latest from the two major pharma companies in this, is bringing in a slightly different demographic. They might be slightly more older and slightly more towards the male side. But we'll watch that cohort as it comes through. It tends to be that an older and more male cohort is actually easier for us to get at middle of funnel. But then you look at the adherence rates and the efficacy rates of the pills versus the injectables, and they're slightly lower. So, there's sort of puts and takes as we look at this new cohort. I can tell you, we're now up to many millions of patients. I think we're up to 3.1 million patients – [ph] 3 million (00:44:28) patients in our cohort that we're analyzing here. And we separate by drug type, by injectable, by pill. Early days on the pill, but we're not seeing a material change in those data. And as we get a cohort that's big enough to talk about, if there is some material change, we'll split it out and we'll talk about the different cohort.

If you're asking me my gut take, I think, it'll be a slightly more adherent group, because it'll be slightly older and slightly less female, because that's what we've seen over history. But you don't know until it's there. I do think, though, that the net benefit of bringing someone into the primary care, having someone else pay $150-plus million a year in advertising to bring someone into the funnel is incredible tailwind for us. Our job every quarter is to fight middle of funnel, get that prescription, make it easier to get the home sleep apnea test, make it easier to get the sleep lab test, make it easier to get that prescription and get on therapy. And then, once they've started therapy, that's when AirView, myAir, and all the upgrades we talked about earlier today can maximize adherence.

It's a great question, David. Thank you.

Operator: Thank you. Our next question comes from the line of Brett Fishbin with KeyBanc Capital Markets. You may proceed with your question.

Brett Fishbin
Analyst, KeyBanc Capital Markets, Inc.

Q

Hey, guys. Thank you so much for taking the questions. Just thinking about the quarter and rest of year setup, it seems like you beat pretty nicely versus Street and the quarterly guidance on both revenue growth and EPS. And I know it's just the first quarter of the year, but just curious on the decision to maintain full year guidance since this is a new practice for the company, if there's any thought around like early year conservatism and if we should maybe be thinking about the higher end of the range as being more likely now versus signaling to the Street that we should really just be lowering the rest of the year numbers commensurate with the 1Q beat? Thank you so much.

Aaron Bloomer
Chief Financial Officer, ResMed, Inc.

A

Hey, Brett. Thanks for the question. You are right. It's early. And so, just as a reminder, guiding 5% to 7% on a core constant currency basis. We did 7% in Q1. And so, obviously, towards the high end of that. We're really pleased. It's a solid start to the year, but we're one quarter in. I think just reiterating the guide at this point is prudent. I want to reiterate that the most likely outcome is still the midpoint of our guide when we go 5% to 7%.

And I did discuss in some of the prepared remarks some of the more important assumptions that's going to move us towards either the low or the high end of the guide. The net price realization, as we roll out our price increases

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around the world. And as I've mentioned, that's going to build as we progress throughout the year, but that it's very modest.

Second, and really importantly, is these new marketing campaigns, the middle of the funnel work that we're doing. We've a tremendous opportunity to drive durable, sustainable growth in this middle of the funnel work over time. But as I mentioned a couple of questions ago, that's going to take some time. And so, we're monitoring that closely, and obviously that's going to be more of an H2 type of dynamic. The external environment, we're continuing to see inflation not only on us, but on our customers and just the broader macro environment that our channel is facing.

And then, just from a phasing perspective, highlighted on the call that we are really benefiting in the first half of the year in Rest of World devices, in particular, our really great rePAP fleet renewal in France, that's a huge tailwind in Q1, as you see the 13% device growth in Rest of World, that's going to become a headwind as we go into the back half of the year. So, look, we're monitoring all of that really, really closely, and I thought just prudent to reiterate the guide at this point.

And just on the earnings side, again, obviously a really strong beat to start the year, but we're still only one quarter through four quarters in a full year. The team delivered really great productivity in the first quarter. It's great to see the culture of continuous improvement and extending beyond supply chain down through the rest of the organization as well. But again, it's still early.

Obviously, we did have the benefit of Apnimed. There was some non-op benefit in the earnings per share. We also had a much more weighted share buyback in the first quarter. So, we talked about almost $1 billion worth of cash deployed towards share buyback. You saw our WASO come down quite a bit. And so, those are some of the dynamics that drove the strength in the first quarter.

Brett Fishbin
Analyst, KeyBanc Capital Markets, Inc.

Q

Aaron, thank you so much. Super helpful. Appreciate it.

Operator: Thank you. Our next question comes from the line of Laura Sutcliffe with Citi. You may proceed with your question.

Laura Sutcliffe
Analyst, Citigroup Global Markets Australia Pty Ltd.

Q

Hello. Thank you for taking my question. I'd just like to ask about how your portfolio optimization process is going, if I can. Do you see an abundance of opportunities out there at the moment that fit with the target deal size you've spoken to previously, your areas of focus, maybe your distribution channels, in your opinion, just keen to see what you think is out there?

Michael J. Farrell
Chief Executive Officer & Chairman, ResMed, Inc.

A

Laura, it's a great question. And obviously, we've talked about tuck-in acquisitions in that sort of sub-$500 million range, sort of $100 million to $500 million. And you saw last quarter that we closed on an amazing product, Nidra. And just having that sales team come into our headquarters in San Diego and meet with that team to see the passion they have as a start-up, it really felt to me like sort of Resmed 1994, just pre our IPO. We've got an incredibly fast growth opportunity, a huge market potential, and just so excited about that Nidra product and what

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it can do for the 400 million-plus people worldwide with restless legs syndrome. But right now, let's focus on the 17 million in the United States and the reimbursement and get market access and really make that work in its first market. So, early days on Nidra, but very excited.

Yeah, look, we don't talk about the pipeline. I can tell you that we have minority stakes in a number of companies that we think could become future Brightrees, future Umbians, future Nidras, future Snaps. And as those come to the right point where we say, actually, now Resmed is the best owner of that asset, it strategically fits with our sleep and breathing portfolio. Yeah, it pencils out in the numbers, in net present value, but also in how it's going to contribute in terms of accretion and growth and top line and gross margin, and ultimately EPS. And then, thirdly, that there's a cultural fit, that this is a cultural add to Resmed. It stretches us and takes us to the right direction and it has all the foundations around honesty, integrity, cybersecurity, and privacy, and so on.

And so, early days in this. There's a number of candidates that we look at out there, but the money that we have is not burning a hole in our pocket. We want to return it to shareholders. We want to invest in R&D primarily for growth. We're a product-led company. And we want to do appropriate marketing, as we talked about, in middle of funnel, to make sure people who get aware into the system get through.

So, nothing to announce right now. And as we find more Nidras, we'll talk about them and bring them into market. But we're actively looking an amazing portfolio. We have an incredible strategy team, has their fingers in a lot of pies, irons in a lot of fires, and we'll talk about them as they come through it. But again, I'll reiterate, it's tuck-in acquisitions, sub-$500 million, and it's things that align strategically for us, and we're the best owner of the asset.

Thanks for the question, Laura.

Laura Sutcliffe
Analyst, Citigroup Global Markets Australia Pty Ltd.

Q

Thank you.

Operator: Thank you. Our next question comes from the line of Anthony Petrone with Mizuho Group. You may proceed with your question.

Anthony Petrone
Analyst, Mizuho Securities USA LLC

Q

Hi. Thanks. And congrats here on a strong start to the year. But maybe, Mick, just a little bit on the US competitive landscape. I know it's been a topic for quite some time here. You have React Health in, and certainly there's chatter there that Philips may come back. But if we have a more robust competitive landscape in the US, what is the strategy from Resmed to defend its market share position, and can the company really maintain its growth trajectory even if the landscape shifts a bit? Thanks.

Michael J. Farrell
Chief Executive Officer & Chairman, ResMed, Inc.

A

Yeah. Anthony, it's a great question. And I'll start with this, that we love competition. It's amazing. In all [ph] 143 (00:53:05) countries worldwide, we have full competition in devices, masks, software, accessories, all across the planet there. And within the US market, incredible competition from every player in masks. And I look forward to the day where it's every player in devices as well, because we love beating competitors no matter where it is. Look, particularly as we think about our market share, yeah, absolutely, we can defend our market share. We can even grow our market share in masks and devices in some of the countries. But I really don't look back at the

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competition and think, oh, gosh, what are those, what's that company, and what are they looking for? I look forward.

But in terms of what we've created, we've created an ecosystem. If you think about what I talked earlier about driving adherence up with our fabrics technology, that's great, and it's IP and it's hard to keep up with in that space that's full open competition. But the advances we made in myAir that drive adherence rates up to 87%, the advances we've made in upgrading the capability for doctors to get access in their own EHR system, whether it's Epic or Cerner or Allscripts, however they want the data, wherever they want the data, they get it.

And so, 60%, 65%-plus of sleep doctors write prescriptions, branded prescriptions for a device. They might write Resmed on the script. They might write AirSense 11 on the script. But they might also just write AirView, our software, on it. And it's an incredible ecosystem that provides lower costs for the HME, lowers labor costs of setup, and incredible value for the doctor that those 12 minutes they spend with a patient once a year are much more valuable because of all the data they've already got through the digital. So, that's what's created the value. That's what's created an incredible competitive nature out there.

But I love the competition. I love the players coming there. We're not only going to defend our share, we're going to grow our share, but more important than that, we're going to grow the market, and we're going to find a way to get more patients in that top of funnel and leverage the work of consumer tech and Big Pharma to make sure middle of funnel, we maximize. If you know you suffocate, if you've got a prescription, we want to make it seamless and frictionless to start that therapy, and most importantly, stay on that therapy. Not just at day 90, but day 365, year 2, year 3, year 4, for life.

Aaron Bloomer
Chief Financial Officer, ResMed, Inc.
A

I would also add, the work that we're doing and some of the things Mick talked about related to myAir. And so, how do we – beyond just grow the existing installed base, but how do we make sure that we're ensuring that all of our – the millions of patients that use our device every single night to help them sleep are getting the appropriate new masks, tubs, tubes throughout the year. And some of these upgrades that we're starting to implement with myAir, we think can have a meaningful impact on our ReSupply program over time.

Operator: Thank you. Our next question comes from the line of Davin Thillainathan with Goldman Sachs. Please proceed with your question.

Davin Thillainathan
Analyst, Goldman Sachs Australia Pty Ltd.
Q

Yes. Thanks. Morning, Mick, Aaron, and Salli. Appreciate the comments. Question on your mask franchise. I guess I'm trying to understand the success of the investment into your fabric range. Clearly, you've launched another product there, which I believe is in the full face category, which is an attractive size. Could you give us a sense of how that range is going, please, whether a mix of your mask sales, or even just on your market share, just to give us a sense of the momentum there? Thanks.

Michael J. Farrell
Chief Executive Officer & Chairman, ResMed, Inc.
A

Yeah. Davin, it's a great question. And I got to tell you, having watched seven years of the development of the fabrics technology and experimentation of our primarily Singapore-based fabrics engineering and fabrics design team, to have brought those first masks to market, like the AirTouch N30i, and now to have the AirTouch F40 in

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play, we've now got real-world data to show a 6% increase in adherence for those first launched now 12, 18 months in market masks. And so, this isn't just about, oh, it looks sexy, it looks great, it feels comfortable at first fit, which it does, and the HMEs love it and the patients love it. They say, oh, I'm choosing Resmed, I'm choosing the fabric, that's great, because first-time fit does matter. First-time failure is a big issue for many of our competitors. They have these masks that try to look like ours, they just don't fit. The patient rejects them immediately. But ours, they don't only like them immediately, day 90, we're getting 6% higher adherence. And we'll produce more and more real-world evidence to show. I think that'll be sustainable over time. I think the delta of a fabric mask versus its silicone equivalent will play out in all the areas.

As you said, F40, it's an oronasal breather. It's about 30% of people breathe through their mouths at night. They need the pneumatic stent to cover both the oral and nasal parts of the body. And what's great about that? Yeah, it's a high-margin, high-growth area, but more important than that, if we can get fabric, which we can now, to form a seal that moves with you all night. If you heard my prep remarks, I talked about the contour and moving, every person moves and tosses and turns at night unconsciously, so their body doesn't get [ph] cirrhosis and issues (00:58:15) with muscles and so on, that movement can hurt. If your mask isn't good, it can come off and disturb the bed partner and not give therapy to you. This mask feels comfortable to start, moves with you all night, and drives higher adherence on the [ph] former (00:58:28) fabric mask.

So, early days with AirTouch F40. There'll be more fabric masks to come. We're two or three in. And I just love the fact that Resmed is again doing a game-changing technology with IP, but more importantly, manufacturing capability that others can't touch, and scale and distribution that others can't touch. Excited about AirTouch F40, early days, launch this week, but we'll give you updates as we go throughout the fiscal year on the whole range of fabric masks.

Operator: Thank you. Our next question comes from the line of Dan Hurren with MST. You may proceed with your question.

Dan Hurren

Analyst, MST Financial Services Pty Ltd. (Marquee Research)

Q

Good morning, everyone. Thanks very much. I was wondering about the US manufacturing initiative, just in terms of capacity and unit cost versus the legacy capacity, and what sort of drag will be on gross margin during ramp-up and then at scale?

Michael J. Farrell

Chief Executive Officer & Chairman, ResMed, Inc.

A

Yeah. Dan, it's a great question. And what we look at and how we're looking at this is, from all our supply chain work that we did during COVID, during the semiconductor crisis, the supply chain crisis, we found out, I know this is a known event, we talked about it publicly in 2022, we rented a 777 jet from Air Canada so we could get ventilators over when FedEx and all those were shutting down, and we just need to get product to our biggest volume market. And it was devices, masks, and vents. And so, we never want to be in a position like that, no matter what happens with perturbations, supply chain. Our biggest volume market is the US, and we need to have local manufacturing there.

So, we made that plans, and we've been putting those in place, and we now have, yeah, a line to make AirSense 11s in Atlanta, Georgia. We have masks and cushion accessories and motors that we can make in Calabasas. And we're expanding our distribution in Indiana so we can get the stuff to people within 48 hours around North America. And so, these investments are good.

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Aaron talked in prep remarks, he can make some comments now around the investments of those and how we account for those in our books, but I can tell you, I look at the delivered, landed, provided cost, and we want to make it equal. We've got a lot of robotics, we've got a lot of automation, and we can get parts and pieces in and make product in Atlanta, so that it's delivered to a customer in the US at the same delivered cost as something that we're transporting by air freight or sea freight on our volume manufacturing in Singapore.

So, that's what we're aiming for. The supply chain team's got the numbers. We're ramping up and we're ready. It also provides us incredible flexibility and capability, not just with supply chain perturbations or tariff perturbations or whatever might happen in the world. Resmed will be able to make sure everyone in 140 countries gets the product they need at the right time and at the right cost so that we can keep our P&L and balance sheet together as well.

Aaron, what did I miss on that?

Aaron Bloomer

Chief Financial Officer, ResMed, Inc.

A

I mean, you hit the key thing, which is that over time, we expect to be able to deliver a similar landed cost in the US than what we would get importing. Obviously, there's start-up costs. We talk about that, for example, with the Indiana Distribution Center, and we'll experience some of those start-up costs in Q2 and Q3. Underutilization, right, as you continue to expand, but it's a great problem to have. We have an ever-growing increased demand for our products globally, and we have the opportunity to be able to bring manufacturing closer to where the customer is, and that's what we're looking to do.

Operator: Thank you. And we are now at the 60-minute mark. So, I will turn the call back to Mick Farrell for closing remarks.

Michael J. Farrell

Chief Executive Officer & Chairman, ResMed, Inc.

Thank you, Shamali. And thank you to all of our stakeholders for joining us on the call today, particularly our long-term shareholders. On behalf of the approximately 11,000 Resmedians serving people in 144 countries worldwide, I'm pleased we're able to deliver another strong quarter here in Q1. And we'll continue to build value for all of our stakeholders. We look forward to speaking with many of you over the coming days and weeks in more detail. And I'll turn the call back to Salli to close us out.

Sallilyn Schwartz

Chief Investor Relations Officer, ResMed, Inc.

Great. Thank you, Mick. I'll echo Mick's thank you. We appreciate your time and interest. If you have any additional questions, please don't hesitate to reach out directly to investorrelations@resmed.com. Shamali, you may now close the call.

Operator: Thank you. And this concludes today's conference, and you may disconnect your line at this time. We thank you for your participation.

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