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EDITED TRANSCRIPT

RMD.N - Q2 2026 Resmed Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Greetings, and welcome to the Resmed second quarter fiscal year 2026 earnings conference call. (Operator Instructions). As a reminder, this conference is being recorded.

It's now my pleasure to turn the call over to Salli Schwartz, Chief Investor Relations Officer. Please go ahead.

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

Thanks, Kevin. I want to welcome our listeners to Resmed's second quarter fiscal year 2026 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 presentation 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.

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Mick Farrell - *Resmed Inc - Chief Executive Officer and Chairman of the Board*

Thank you, Salli, and good morning, good afternoon and good evening to all of our shareholders, and welcome to all to Resmed's second quarter fiscal year 2026 earnings call. We delivered another strong quarter with 11% headline revenue growth or 9% growth on a constant currency basis. We drove operating leverage leading to margin expansion sequentially and year-on-year, and we achieved GAAP EPS growth of 16%, strong double-digit bottom-line growth.

I'm very proud of our global team of 10,000-plus Resmedians, who continue to innovate and evolve the digital sleep health pathway to expand access to our life-changing technology across over 140 countries worldwide. Our team drove high single-digit growth in global devices revenue and double-digit growth in global masks, accessories and other revenue.

Last quarter, I expressed confidence that we would reaccelerate our Europe, Asia and Rest of World masks, accessories and other category to high single-digit growth in the second quarter. The team from EMEA and APAC has delivered, and we achieved 8% growth on a constant currency basis across Europe, Asia and Rest of World, driven by continued strategic expansion of our mask portfolio, including our new fabric masks, a focus on improved mask resupply through education, awareness and execution as well as targeted initiatives and focus in some of our direct-to-consumer markets around the world. And I'll spend a little time on that later. So well done to our EMEA and APAC teams.

Last quarter, I also talked about our portfolio management work that we're doing in Resmed's residential care software or RCS business. We are making strong progress with that work, and I remain confident that we will be back to sustainable high single-digit growth and double-digit operating profit growth in fiscal year 2027.

For this March and the June quarters, we expect to continue our portfolio management process and maintain mid-single-digit growth across our RCS business as we go through that portfolio management. This software business, this RCS business remains a key synergistic enabler of our sleep health and breathing health business, particularly through Brightree in the Americas and through MEDIFOX DAN in Germany, and it remains a core part of our long-term growth strategy.

During the quarter, we also continued to drive operating leverage. Our global supply chain team delivered 310 basis points of year-over-year gross margin expansion, incredible result. These results, along with our disciplined approach to business investments in both R&D and SG&A translated to another quarter of strong mid-teens earnings per share growth.

A huge thank you to the entire Resmed global team for their ongoing commitment to serving patients across 140 countries worldwide. Resmed continues to build the world's leading digital health ecosystem, encompassing sleep health, breathing health and health care technology that's delivered in the home.

Over the recent quarters, I've been highlighting three key themes: one, that Resmed is an operating excellence machine and an innovation machine. Two, that Resmed is a compelling investment opportunity, especially amidst global macro uncertainty; and three, that Resmed has an excellent free cash flow and a very strong balance sheet, and they both position us well to invest in the business as well as to return capital to our shareholders.

So let me cover these three themes briefly in these prepared remarks. On the topic of operational excellence, I've shared with you Resmed's pipeline of margin improvement drivers. These efforts helped deliver 310 basis points of year-over-year gross margin expansion in the second quarter and 30 basis points of sequential gross margin expansion. We will continue to execute on these opportunities over the remainder of fiscal year 2026 and beyond.

As I shared at a recent health care conference earlier this month, I have challenged our supply chain team to deliver double-digit basis points improvement in gross margin every year through 2030. I've also highlighted the evolution of our global manufacturing footprint. We're making very good progress on our newest US distribution center in Indiana. We recently signed lease and started construction in that state, and we are on track to be up and running during calendar year 2027.

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Once this facility comes online, Resmed will be able to ship to around 90% of our U.S. customers in less than 2 business days. This is in addition to our recently announced expansion of our Calabasas, California plant, which doubles our U.S. manufacturing capacity. Ultimately, Resmed will be able to deliver the only made in America CPAP, APAP, bilevel and mask systems.

Resmed remains an innovation machine. Our R&D investments in the next generation of market-leading masks, cloud-connected medical devices and digital health care software position us to keep delivering the world's smallest, quietest, most comfortable, most connected and most intelligent therapy solutions for sleep apnea and expansions into insomnia, respiratory insufficiency and beyond.

We recently launched the F30i Comfort as well as the F30i Clear range of masks. These are the first compact full-face fabric masks available from Resmed. And they're in select key markets now, and we will continue to roll them out around the world as we get regulatory approvals.

Patient and provider feedback on these new fabric masks has been incredibly positive. It's still early days into the launch, but we expect strong adoption of these masks over time. These latest variants expand Resmed's AirTouch portfolio of fabric-based mask offerings, which not only deliver advanced comfort, mobility and interchangeability for patients, but they also change the basis of competition for masks and for Resmed.

Artificial intelligence is another vector for our product innovation. At Resmed, we view AI as a resource that will amplify and personalize care. Last quarter, I talked about our limited beta launch of Comfort Match, an AI-enabled comfort setting recommender within the myAir software platform.

This is Resmed's first FDA-cleared AI-enabled medical device. Comfort Match is intended to help people become more confident and more comfortable with CPAP, APAP and bilevel therapy. What I expect to see is having an AI algorithm that is effectively a sleep coach to help you start therapy that can really help you improve not just short-term adherence, but also long-term adherence as you get used to therapy. There are a bunch of comfort settings on these devices and many people do not adjust them. With help from AI, we think this technology will unlock decades worth of comfort features that have been underutilized by consumers and patients alike.

Moving on to Resmed's SG&A initiatives and investments. We remain focused on demand generation, demand capture and demand curation as critical components to our long-term growth. We continue to drive selected targeted direct-to-consumer campaigns to build sleep apnea awareness as well as to drive Resmed brand awareness globally and to drive patients into the funnel.

This past quarter, we supported various holiday-related campaigns. We focused on 11/11 or Singles Day in China, and we also had some promotions around Christmas holidays and Black Friday within the U.S. markets. I can tell you, we've successfully encouraged consumers to give the gift of great sleep, and we highlighted our portable travel AirMini device, which is lightweight and compact size as perfect for travel, and we had good success in the December quarter.

We also are driving awareness in the clinical community. Earlier this year, we expanded our offering of Continuing Medical Education or CME programs that review sleep medicine guidelines, including the benefits of gold standard CPAP, APAP and bilevel therapy. It's the frontline treatment for any patient diagnosed with sleep apnea, and we're educating PCPs around the U.S. on this fact.

To date, these CME programs have been completed nearly 60,000 times. That's a 50% increase from our first quarter 2026 earnings call numbers that we shared with more than 35,000 unique clinicians completing the CME training. That demonstrates that actually many of these health care providers have taken multiple courses, so not just sleep 101, but sleep 201, sleep 301. Surveys at the end of these courses now show 77% of these providers intend to change their clinical practices related to sleep apnea and sleep health and breathing health based on what they learned.

On the clinical research front, we continue to stay abreast of important studies that highlight evidence of sleep health and how it impacts the body and the brain and overall health. One important area of analysis is the link between sleep apnea and sleep health and brain health. A recent study published in JAMA Neurology looks at a cohort of more than 11 million U.S. veterans, where researchers found that Obstructive Sleep Apnea, or OSA, was associated with a higher incidence of Parkinson's disease over time.

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The authors of the study also found that early treatment of OSA with CPAP may reduce the risk of developing Parkinson's disease in the first place. The study's findings align with prior evidence linking OSA with cognitive disease, gait instability and fall risk.

Growing evidence also now shows that OSA may meaningfully alter dementia risk. Adherence to CPAP appears to counteract several of the biological pathways that link disrupted sleep to neurodegeneration. A large cohort studies have shown that untreated moderate to severe OSA increases the likelihood of developing dementia by 30% to 45%, while patients who remain adherent to positive airway pressure therapy experienced substantially lower risks and rates of Alzheimer's disease and cognitive decline over time.

Mechanistic studies reinforce this signal. CPAP use has been shown to partially restore lymphatic clearance as well as the brain's oversight waste removal system that becomes impaired during OSA, and this reduces a key Alzheimer biomarker. Even short-term CPAP adherence around 5 hours a night can improve memory, attention and executive function in older adults with mild cognitive impairment, suggesting that consistent early intervention with CPAP may help stabilize some cognitive trajectories.

Watch this space for more on this front between sleep health and brain health. It's increasingly clear that treating OSA, getting on, staying on CPAP, APAP and bilevel has implications to brain health as well as cardiovascular health, diabetes health and beyond. In fact, it is literally a matter of life and death. Research published last year in the Lancet Respiratory Medicine Journal found that CPAP therapy significantly reduces the risk of overall death for people with obstructive sleep apnea.

More specifically, this study showed that CPAP therapy lowers the overall chance of dying by 37% and the chance of heart-related or cardiovascular-related death is reduced by 55%. The study, which analyzed data from more than 1 million sleep apnea patients worldwide, underscores the importance of consistent CPAP therapy for improving survival outcomes in OSA patients. So this therapy saves lives, but also improves quality of life.

We're also excited to announce that our Medical Affairs team has launched the Resmed Science of Sleep Apnea Advisory Group, bringing together leading external physicians in various specialties from around the world to provide strategic clinical and scientific guidance to our innovation efforts. Watch this space for results of their work.

Before I move on, I'd like to spend a minute on our latest real-world evidence that we shared during a recent health care conference. As you know, we've been tracking claims data now reflecting more than 1.95 million patients. What we've consistently seen is patients, who have scripts for both a latest generation GLP-1 or GLP-1 and CPAP prescriptions are 10% to 11% more likely to start their CPAP therapy than patients who only have a script for CPAP.

These patients that have a combined script, they are also 3% more likely to have a resupply event at one year, meaning they're buying a new mask, a new accessory of some type, a hose, filter and beyond. But that doubles, and we see more than 6% likelihood to have a resupply event at three years. This is the first time we had three-year data to share, and we shared that. It's encouraging to see that the motivation of these patients lasts and even accelerates over time. Ultimately, what we're finding is patients on a GLP-1 get on CPAP more and stay on CPAP therapy longer.

Even as we've continued our investments in both R&D and SG&A, Resmed again delivered strong operating profit growth in the first quarter. Indeed, Resmed remains a compelling investment opportunity amidst global macro uncertainty. That's my second key message I'll spend a couple of minutes on and then get to Brett and we'll get to the Q&A.

We continue to closely monitor the global trade environment and the evolving regulatory landscape. As you saw in December, CPAP, APAP and bilevel products are not included in CMS' upcoming competitive bidding program. That's the first time in 15 years that's happened, and we're very happy that, that result, we think, will be great for not just U.S . citizens and Medicare recipients, but also for our HME partners and the overall sleep health and breathing health industry.

Also, because Resmed's products are used to treat patients with chronic respiratory disabilities such as obstructive sleep apnea and respiratory insufficiency, they've been subject to global tariff relief for decades. This relief has continued in the context of prior Section 232

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investigations, and we expect it to remain true no matter what the result of those types of investigations are for medical supplies announced in the late September investigation that's currently underway. So the so-called Nairobi Protocol we see in play.

We are fortunate to be able to remain fully focused, therefore, on executing on our 2030 strategy, including delivering value to all of our constituents. Resmed remains a very strong free cash flow generation machine. We have an incredibly robust balance sheet, and that provides us with significant flexibility to both invest in our business and return capital to shareholders. This is my third and final key message here.

We'll continue to selectively invest in our digital sleep health concierge capabilities, including screening tools, clinical tools, seamless workflows and cloud connected pathways. We'll be looking to expand and speed up the diagnostic funnel to keep up with new patient flow and even accelerate it over time from our own Resmed demand generation efforts.

The greater awareness of sleep apnea generated by big pharma medications as well as the consumer wearables from big tech are capable of driving growth of patients into our funnel, if Resmed does the work of curating and helping those patients find a pathway.

As I said at JPMorgan earlier this month, I'm predicting that at least one, two or three of these wearable companies will follow Apple Watch and Samsung Galaxy Watch to develop and launch sleep apnea detection capabilities that have passed through the FDA workflow. So watch this space on that.

So with both big tech and big pharma bringing people into the funnel and primary care education from Resmed driving like never before, we need to be prepared to address this ongoing and growing awareness of sleep apnea as well as other sleep health and breathing health disorders.

I spoke a few minutes ago about our CME -- CME courses. I also talked about some of our ongoing product innovation, such as our newer fabric masks. You've seen our prior acquisition of companies like VirtuOx and the NightOwl product from a company called Ectosense as well as Somnoware, which is the software for pulmonary and sleep medicine physicians.

Ultimately, through this M&A and organic developments, we're expanding the ecosystem to help people quickly and swiftly move from sleep apnea awareness through testing all the way to being diagnosed and treated and adherent on our therapy for life.

With investing going back into our business is our absolute first priority for capital allocation. We invest over 6% to 7% of our revenues in R&D and 19% to 20% in SG&A. But we're also returning capital to shareholders through dividends, and we've been increasing those, and we've added an increase to our share repurchases.

During the second quarter, we returned another $263 million to our shareholders through our quarterly dividend and our $175 million in share repurchases. I noted at JPMorgan earlier this month that we are increasing our share repurchases to more than $600 million for fiscal year 2026. We picked up the pace of our share repurchases in the second quarter, and we'll continue to deploy meaningful capital through our share repurchase program. Quarter-after-quarter, Resmed has and will continue to demonstrate an ability to consistently deliver both financially and operationally. We've established a leading market position globally in underpenetrated markets, and we still have a very long runway of growth ahead. We're in mile one of the marathon.

This underpins our confidence in our ability to deliver for consumers, for patients, for physicians, for providers, for payers and for our communities that we serve. And of course, to all of you listening here, our shareholders.

With that, Brett, I'll hand over to you to go into a deeper dive on our financials, and then we'll open up the floor for your questions. Brett, over to you.

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Brett Sandercock - *Resmed Inc - Chief Financial Officer*

Thank you, Mick. In my remarks today, I will provide an overview of our results for the second quarter of fiscal year 2026. Unless noted, all comparisons are the prior year quarter and in constant currency terms where applicable.

We had strong financial performance in Q2. Group revenue for the December quarter was $1.42 billion, an 11% headline increase and 9% in constant currency terms. Revenue growth reflected positive contributions across our device and mask portfolio and our software business.

Year-over-year movements in foreign currencies positively impacted revenue by approximately $25 million during the December 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 11%. Sales in Europe, Asia and other regions increased by 6% on a constant currency basis.

Globally, on a constant currency basis, device sales increased by 7%. Masks and other sales increased by 14%. Breaking it down by regional areas, U.S. Canada and Latin America increased by 8%. Masks and other sales increased by 16%, reflecting continued growth in both resupply and new patient setups as well as incremental revenue from our VirtuOx acquisition, which we acquired in Q4 FY25.

In Europe, Asia and other regions, device sales increased by 5% on a constant currency basis and masks and other sales increased by 8% on a constant currency basis. Residential care software revenue increased by 5% on a constant currency basis in the December quarter, underpinned by robust performance from our MEDIFOX DAN software vertical, partially offset by ongoing challenges in our senior living and long-term care vertical.

During the rest of my commentary today, I will be referring to non-GAAP numbers. We have provided a full reconciliation of the non-GAAP to GAAP numbers in our second quarter earnings press release. Gross margin was 62.3% in the December quarter and increased by 310 basis points year-over-year and by 30 basis points sequentially. The year-over-year increase was primarily driven by component cost improvements and manufacturing and logistics efficiencies as well as a modest positive impact from foreign currency movements.

Our supply chain team continues to work and make progress on our pipeline of gross margin productivity initiatives, and we remain focused on making sustained long-term gross margin improvements. Looking forward and subject to currency movements, we now expect gross margin will be in the range of 62% to 63% for fiscal year 2026.

Moving on to operating expenses. SG&A expenses for the second quarter increased by 15% on a headline basis and by 12% on a constant currency basis. The increase was primarily attributable to growth in employee-related expenses and marketing and technology investments as well as additional expenses associated with our VirtuOx acquisition. SG&A expenses as a percentage of revenue increased to 19.6% compared to 18.8% in the prior year period.

Looking forward and subject to currency movements, we still expect SG&A expenses as a percentage of revenue to be in the range of 19% to 20% for fiscal year 2026. R&D expenses for the quarter increased by 12% on a headline basis and 10% on a constant currency basis. The increase primarily reflects increases in employee-related expenses. R&D expenses as a percentage of revenue increased to 6.4% compared to 6.3% in the prior year period.

Looking forward and subject to currency movements, we still expect R&D expenses as a percentage of revenue to be in the range of 6% to 7% for fiscal year 2026. During the quarter, we recorded a restructuring-related charge of $6 million, reflecting the finalization of our global workforce planning activities, which we initiated in the first quarter of fiscal year 2026. Restructuring charges were comprised of employee severance and other one-time termination benefits. The restructuring charge has been treated as a non-GAAP item in our second quarter financial results.

Operating profit for the quarter increased 19%, underpinned by revenue growth and gross margin expansion. Our operating margin improved to 36.3% of revenue compared to 34% in the prior year period. Our net interest income for the quarter was $8 million. Our effective tax rate for the December quarter was 21.1% compared to 18% in the prior year quarter.

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As we previously noted in our Q1 earnings call, the increase in our effective tax rate was primarily due to the impact of global minimum tax legislation introduced in certain jurisdictions that became effective from July 1, 2025. We still estimate our effective tax rate for fiscal year 2026 will be in the range of 21% to 23%.

Our net income for the December quarter increased by 15% and diluted earnings per share increased by 16%. Movements in foreign exchange rates had a positive impact on earnings per share of approximately $0.04 in Q2 FY26. Cash flow from operations for the quarter was $340 million, reflecting strong operating results, partially offset by increases in working capital.

Capital expenditure for the quarter was $29 million and depreciation and amortization for the quarter totaled $50 million. We ended the second quarter with a cash balance of $1.4 billion. And at December 31, we had $664 million in gross debt and $753 million in net cash. We have approximately $1.5 billion available for drawdown under our revolver facility. We continue to maintain a solid liquidity position, strong balance sheet and generate robust operating cash flows.

Today, our Board of Directors declared a quarterly dividend of $0.60 per share. During the quarter, we purchased approximately 704,000 shares under our previously authorized share buyback program for consideration of $175 million. We plan to continue to repurchase shares for a total value of more than $600 million for fiscal year 2026. In addition to returning capital to shareholders through a dividend and share buyback program, we will continue to invest in growth through R&D and tuck-in acquisitions.

And with that, I will hand the call back to our operator, Kevin, for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Jon Block, Stifel.

Jonathan Block - *Stifel Nicolaus & Company Inc - Analyst*

Great. Thanks, guys. Appreciate it. Really strong U.S. mask number, I think it was 16%. Maybe if you could just help us out a little bit. Was that -- we're counting roughly a 400 basis point benefit from VirtuOx when you think about that?

And then Mick or Brett, any movement or stocking, if you would, from F30, relatively new, good reception. So should we calibrate any sort of benefit or stocking from that dynamic? And then if I could ask a follow-up.

Mick Farrell - *Resmed Inc - Chief Executive Officer and Chairman of the Board*

Yeah. I'll go first, Jon, and then hand to Brett to go through the -- with and without VirtuOx. As you said, the mask, accessories and other does include some contributions from the VirtuOx part. And so even taking that out, though, we had very solid growth. I'd say -- I'm going to say double-digit growth in our masks and accessories in the U.S. even taking out VirtuOx. And so really, really solid.

Look, yes, I think when we launch a new mask, it can have some good cycles. Our channel doesn't tend to really stock ahead of demand. They tend to buy when a new product comes and they start to see demand, buy more. I can tell you that the new F30i Clear and particularly for me, the F30i Comfort, which has fabric, not just at the nasal interface, but also around the headgear that goes around the head.

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I think this is changing the basis of competition and I think we're going to see some really good adoption of these masks over time. Obviously, we also have the high-deductible health plans and health savings accounts, which are a factor in the U.S. market as they clear at the end of the December quarter there as well. So we will have some seasonality associated with that, I'd say.

But Brett, anything to add there specifically to the numbers that Jon mentioned on with and without VirtuOx?

Brett Sandercock - *Resmed Inc - Chief Financial Officer*

No, I think you covered it pretty well, Mick. Even without VirtuOx, it's still double-digit growth, so still really strong. And we had a -- VirtuOx had a really good quarter as well. So across the board, and there's probably -- I think we'd see some seasonality impact from that. I think you're right, Mick.

And the early -- I think early days for the mask launches, but off to a good start that's kind of not as big of an impact necessarily, but it's certainly there. It's incremental, I think, really on the new fabric masks.

Operator

Anthony Petrone, Mizuho Group.

Anthony Petrone - *Mizuho Securities USA LLC - Analyst*

Thank you and congrats on an excellent quarter here. Maybe, Mick, you gave an update on just the GLP-1 landscape here, the claims data, obviously, holding solid here on the attach rate for CPAP post starting GLP-1 therapy. We now have orals out there, and it's been almost a year, since the initial clearance.

Maybe just an update on the impact to the front end of the funnel more specifically in the latest channel checks that we're hearing is that this indeed is actually bringing more patients in and it's resulting in a high CPAP attach rate. So maybe walk through that dynamic a bit and how you see that playing out the rest of the year. Thanks.

Mick Farrell - *Resmed Inc - Chief Executive Officer and Chairman of the Board*

Yes. Thanks, Anthony. It's a really good question. And as you noted, we're now tracking 1.95 million patients in our claims data analysis there, and that shows that 10%, up to now, 11% higher start rate. So at the top of funnel, as you mentioned, there's just a really -- I would say a motivated patient group.

We don't fully understand the psychology. We see the correlation, don't know the causality. But our assumption as we do our channel checks, talk to the doctors, talk to the pulmonary doctors, then the primary care physicians, who are starting to see the patients brought in by GLP-1s, and they're saying these are motivated patients. And so I think that's what gets us at the top of funnel, that sort of inspiration to come back into the health care system with this new class of medicines, whether it's the injectables or the pill, which will go broader market.

But then the interesting part, and the new data this quarter is the three-year data showing a 6% higher, I think, 6.2% higher resupply rate at three years. And so this impact it seems to be not only a motivated patient when I show up to the PCP or the pulmonary doc, but that motivation seems to last a long time. And as Carlos Nunez said, Dr. Carlos Nunez is on the stage at the healthcare conference earlier this month, it seems to stay -- motivation for our therapy even longer than the motivation for the other therapy.

So whether or not they stay on the GLP-1, where the adherence rate often is only 30% or 40% at one year, they're more motivated on our therapy over the long term. So we're watching it very closely. We've now got three years of data. We'll continue to watch that. But to your

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point, it does bring more patients in. They are more motivated and your channel checks confirm what we're hearing with our sleep doctors that this is bringing people in.

And now with the primary care doctors, they're getting motivated to get trained, 60,000 CME trainings and many of them are saying 77%, I'm going to change what I do on my screening, referral and pathways and so on, and we'll be there to help them with VirtuOx and all these virtual pathways, we'll also support our pulmonary physicians in our HME industry to scale to the flow that we need to deal with this increased demand. Thank you for the question, Anthony.

Operator

(Operator Instructions)

Dan Hurren, MST.

Dan Hurren - *MST Financial - Analyst*

Good morning and thanks very much. A question for Brett. Can I just ask about the SG&A. The SG&A growth is uncharacteristically ahead of revenue growth. I'm just wondering if there's any transient expenses in there as you settle these acquisitions? Or is this a rebasing higher with promotional activities in sales force, et cetera?

Brett Sandercock - *Resmed Inc - Chief Financial Officer*

Yeah. I mean, there was some impact from the VirtuOx acquisition, Dan. So that -- if you excluded that, you'd get -- we would be at high single digits for SG&A growth. So tracking pretty close on revenue growth. But as Mick mentioned in his remarks, we're also doing some around -- some marketing programs and we've done, for example, China, Singles Day and things like that.

So there's some promotions we ran during the quarter as well on that. So overall, if you look at more underlying, it's more tracking to kind of revenue growth on that, I think.

Operator

Laura Sutcliffe, Citi.

Laura Sutcliffe - *Citibank Cameroon SA (Douala Branch) - Analyst*

Hello, thank you for taking my question. Another one on the patients funnel, if I can, please. Which sort of areas or stage is the patient funnel from -- all the way from an initial visit to a PCP through to their first night with a Resmed device do you think you've had the most impact on in the last couple of years? And where do you think there's, most work left to do?

Mick Farrell - *Resmed Inc - Chief Executive Officer and Chairman of the Board*

Yeah. Thanks, Laura. It's a great question. It's a complex one because that funnel, obviously, we map every single decision process and step along it from consumer, sleep-concerned consumer, considering diagnostic then prescription therapy and then therapy for life, year one and year X, right, year-end.

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So I would say the most progress we've made is probably in the top of the funnel area. I think we are being given some I would say, without having to pay for it some extra awareness from big pharma in bringing patients into the funnel with their GLP-1 medicines. They're spending a lot of money on direct-to-consumer advertising with Zepbound and other products to follow. So that brings patients in.

And then from big tech, the fact that your Apple Watch or Samsung Galaxy Watch and -- as I predicted at least one more of the others, Whoop, Garmin, Oura Ring, Ultrahuman, someone else is going to add that in. That brings patients in too. So that top of funnel, I think that's moved a lot.

Our challenge at Resmed is to partner with our channel to say, -- can we scale home sleep apnea testing? And so that's why we bought Ectosense, and we have the NightOwl product out in the US. That's why we bought VirtuOx, which is a home sleep apnea testing service company to help primary care physicians and pulmonary physicians with a very efficient home sleep apnea testing service.

And then you saw us buy Somnoware, which is software that can help a pulmonary or sleep clinic be more efficient and more capable. So really focusing on expansion of that top part of the funnel. And then, of course, we're partnering with our HME customers to say, -- how can we help you grow? Now that we're not in competitive bidding, CPAP, APAP, all out, there's no distractions, let's grow our businesses together. And so we're helping them understand how to scale their setup process, to run their business more efficiently with Brightree so that they can cope with the greater flow of patients through the funnel.

And I've said this publicly; I don't think this is going to be like some crazy doubling of growth rates of devices in the US. But you certainly can see in the numbers we reported today that there is some good improvements there. And I think if the market is growing at mid-single digits on devices and high single digits on masks, we clearly drove extra market growth and/or took share this quarter.

And it's our goal to do that every quarter. Will we do it every quarter? No, but will we try? Absolutely. And as Brett said, we invested in some of these programs on Singles Day in China and some D2C work around the holidays in Australia, New Zealand, Korea, Singapore and even in the US, we make sure there's an ROI to every program. And if there is, we continue with it and if there isn't, we stop and then reevaluate and try another program. And so watch this space.

There's no particular area, Laura, but I would say that top-of-funnel, middle of funnel is the area we're laser focused on now because once they've got that prescription, we are a machine at getting that 87% adherence with our technology at day 90 and keeping them on therapy for life. And also the symptom relief that you get from CPAP keeps them there as well. Thanks for the question, Laura.

Operator

Lyanne Harrison, Bank of America.

Lyanne Harrison - *BofA Merrill Lynch Asset Holdings Inc - Analyst*

Good morning, Mick, Brett and team. I'd like to come back to Anthony's questions on GLP-1. Obviously, you're tracking a lot of patients now and you've got three years' worth of data. But with the GLP-1 prices coming down, and now in pill form, we expect more people be on GLP-1 for longer.

Are you seeing any changes in compliance or therapy for those GLP-1 OSA patients in the cohort you're tracking who have been with you for three years now, in particular, those who have mild or moderate sleep apnea?

Mick Farrell - *Resmed Inc - Chief Executive Officer and Chairman of the Board*

Yes. Thanks for the question, Lyanne. And look, we have those aggregate numbers that we shared. And clearly, at three years, we see more purchases. And so these people are motivated and buy more from us. To your specific question of tracking individual patients and

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where they go through this therapy, what we're finding is patients who have this therapy, even if they have so-called mild to moderate sleep apnea and their AHI might be reduced somewhat. The symptomatic relief that they get from CPAP, APAP, bilevel, you never really -- you don't cure this disorder by lowering your AHI. You can mitigate some of its severity.

But what we're finding is the symptomatic relief and the care that patients have on therapy is such that they stick on our therapy full life. The side effects of these medicines are in the early stages, nausea, diarrhea or in some aspects, you have to get used to GLP-1 medicines.

For CPAP, it's the opposite. You have symptomatic relief, your bed partner says, -- wow, you stopped snoring. We can now sleep here in the same room together. The sleep divorce is over. We have aspects of the patient themselves, but they wake up refreshed in the morning versus morning headaches. They're not tired in the afternoons at their jobs or in front of the television and movies with friends.

And so that symptomatic relief and change of life is very addictive. So even if patients go from an AHI of 40 to 20 or 20 to 10, they are sticking with therapy. And it's out there in those aggregate numbers. But we're actually looking and we'll do case studies around people where the combination therapy which, by the way, was shown in Lilly's SURMOUNT-OSA study to be the best outcome in their own analysis, is one that we would encourage. Weight loss and treating your sleep apnea has always been part of the care of pulmonary doctors.

They now have a new injectable/pill to cover with weight loss versus just eat less and exercise more. So it's a combination of all of the above that's leading to these numbers. But yes, no, we're looking at our adherence on the short, medium and long term, not seeing any reductions and particularly within this cohort of patients, we're actually seeing patients that are more adherent to therapy, more motivated to start and stick with therapy. So watching very carefully, but the thesis that this could be a headwind is completely gone.

It's a tailwind. And the question is now, how much of a tailwind will it be? How many PCPs can we educate to get combination prescriptions. And when are patients on therapy, how can we meaningfully engage with them, so they stay adherent for life. And we're having good success with this new cohort of patients.

Thanks for the question, Lyanne.

Operator

Matt Taylor, Jefferies.

Matthew Taylor - *Jefferies LLC - Analyst*

Hi, thanks for taking the question, Mick, you actually sort of led into what I wanted to ask about, which is you've given a lot of positive stats about how GLP-1s are helping the funnel and your business. I guess I was wondering if you tried to quantify that now with some of the data that you have.

Could you help us understand how much of a tail end it is now or it could be in the future? Or if they didn't exist, how much would you be growing? Would it be a material difference? Thank you.

Mick Farrell - *Resmed Inc - Chief Executive Officer and Chairman of the Board*

Yeah, Matt, it's a really good one that we're wrestling with internally to go from the macro and claims data down to the individual. How many basis points -- to your point, how many basis points of that really good U.S. devices growth in the quarter was 8%. How much of that was driven by big tech and Apple and Samsung identifying someone that came to a PCP versus big pharmas advertising a new injectable or pill that brought someone into PCP, so they got the referral to the specialists and prescription.

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And we've got a lot of that macro data. We also, through myAir, we now have 11 million users of myAir. And obviously, on a voluntary basis, every person who signs up to myAir can tell us how did you hear about sleep apnea? Was it your bed partner? Was it snoring? Was it a big pharma? Was it a GLP-1? Or was it big tech? Was it a wearable?

And so we're asking those questions and we're getting early data. We're not prepared to publicly talk about it yet. But I can tell you that it is a contributor, and it's one that we are working very carefully to quantify and also to work out how we can continue to scale with to make sure that our funnel, the primary care physicians, the home sleep apnea testing capabilities, the prescription capabilities of a sleep doctor.

Sleep Doctors are very busy. They have a long waiting lists, how can we help them with Somnoware and Brightree to better manage their practice and their DME if they have that part. And then for our DME customers to really help them scale. We're seeing a great demand for Brightree and its ability to lower costs and improve outcomes. And although we are completely out of competitive bidding, our HMEs have other products that are in there.

So the more costs we can help an HME take out of their business with Brightree and then we'll resupply, we can help them drive to where a patient wants that new mask or accessory. That's what's going to get us to where we need to be.

So yes, thanks for the question, Matt. We are quantifying it, not yet ready to sort of release that. But we may peer review and publish some evidence on this through a scientific part of our business to really get it out there in the peer-reviewed press, and then I can start to talk about it publicly. But it is a contributor, and we'll quantify it over time. But really excited to have this moment, if you like, sleep health is having a very good moment in health care right now, and we're leveraging that.

Operator

David Bailey, Morgan Stanley.

David Bailey - *Morgan Stanley & Co Ltd - Equity Analyst*

Yeah, thanks very much. Morning, Mick. One of the most frequent questions we get is the potential return of Philips back into the U.S. device market. Just thoughts on any potential timing of that re-entry to the extent you've got any thoughts there. Are there potential impacts? And where they have re-entered your observations in relation to the competitive dynamics, that would be great.

Mick Farrell - *Resmed Inc - Chief Executive Officer and Chairman of the Board*

Yeah, thanks for the question, David. And I'll just default to what that company's CEO said at a conference earlier this month and what their CFO said at a conference I was at the quarter before, which is they don't know.

So if they don't know, then I don't know. But -- and frankly, I don't really look back to the number 2, 3 or 4 competitor, which that company is in the various markets, 140 markets we compete in. I look forward to say the last five questions, how do we deal with this new flow of patients in. I can say this, though, they're back in over 100 countries in Europe, Asia, Rest of World, and some they've been back for 12, 18, 24 plus months so we've lapped it multiple times in these quarterly calls.

And I don't know if you looked into the Europe, Asia, rest of the world device growth in the quarter, pretty solid. They're at 5%, like right in line with market, maybe a little demand gen that we're driving. We're holding share and competing well with that competitor. But more importantly, frankly, in some of those regions, other competitors that have taken that number 2 spot that, that competitor you mentioned has to fight with to get back to number 4, number 3 and even number 2 space.

So I welcome competition. I think competition is fantastic. I'm not fearful at all about that player that we're going to be making products that I think go in Thailand now and shipping them to the U.S. and Europe. I look forward to that. I think we've got a better product. It's smaller.

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It's quieter. It's more comfortable, it's more connected and it's more intelligent. And that ecosystem, what we developed with myAir and AirView and Brightree, that ecosystem is very hard to match and none of our competitors really can compete across the board on that.

But no, I have no idea of the U.S. devices entry, but they've been in the U.S. for masks and accessories these last 20 quarters, and we've been competing very well against them and meeting and beating their growth and taking share when that's all they could sell in that market. I'm very happy to have them back Monday morning or next year, and it really won't affect us in terms of how we go to the market. They'll have to fight to get that number 3 or number 2 position from another player that took it, and we welcome that competition.

Thanks for the question, David.

Operator

Davin Thillainathan, Goldman Sachs.

Davin Thillainathan - *Goldman Sachs Group Inc - Analyst*

Thanks, Mick and team for the presentation. It's good segue to my question, Mick, on the question about devices for the ex-U.S. markets, sort of 5% constant currency growth. Could you sort of help us understand that growth a little bit better?

Clearly, it's a market that is quite lumpy. Was there any sort of pull forward of demand that have been in the previous quarters that sort of weighed on the growth this quarter? How do we think about, I guess, some of the demand generation activities that you are doing?

Mick Farrell - *Resmed Inc - Chief Executive Officer and Chairman of the Board*

Yeah. No, it's a really good question. And look, I think 5% growth across Europe, Asia, Rest of World is very solid in where we're at and it's in line with market. There were some -- if you take this quarter a year ago, there was some lumpiness from our Japan market, where it's kind of a fleet management market, and there was sort of increased purchases of devices in the Japan market. But look, the way I look at it is we've got 140 countries we sell in across there.

Our job the portfolio of managing all of those is to continue to grow across them. And I think our teams did very well. There were some good promotional work that we did in China and Korea and Australia and New Zealand markets that can help that market and not just in the December quarter, but that's a particularly good one for D2C markets with the holidays and AirMini particularly. But yes, there was some lumpiness in the year before. But look, there are no excuses.

Markets are growing mid-single digits. Our team has to grow mid-single digits in devices and high single digits in masks. And I'm very proud of our EMEA and APAC teams that they delivered in the December quarter. And now they're on to March and June, and we'll continue to deliver. And our goal really is to across those 140 countries, emulate our best approach to help be that digital sleep health and breathing health concierge and drive patients in the funnel and through the funnel for their best path to get to therapy.

Brett, anything to add on that for Europe, Asia, Rest of World devices?

Brett Sandercock - *Resmed Inc - Chief Financial Officer*

No, we're pleased with that result. And the only thing I'd say is that the prior year comp that you mentioned, Mick, was 9% last year. So it was very strong comparable. But overall, I think -- yes, no, pretty solid, pretty happy with it.

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Operator

Brandon Vazquez, William Blair.

Brandon Vazquez - *William Blair Capital Partners - Analyst*

Hi, everyone, thanks for taking the question. Mick, I wanted to ask, it's been a little bit over a year now that you started kind of stepping up the investments within the PCP channel. Talk to us a little bit about what are you seeing from that channel? How excited are you about it?

And what can it mean for growth on the devices side? And what kind of metrics should the investors be looking for as maybe like positive ROI on these investments within the PCP channel? Thanks.

Mick Farrell - *Resmed Inc - Chief Executive Officer and Chairman of the Board*

Yes, Brandon, it's a great question. Yeah, in the prep remarks, I talked about the 60,000 trainings we've done on CME with PCPs or GPs as they're known here in Australia and Europe. What's exciting for that -- for me is that, I mean, it was the number one downloaded PCP training in the last quarter. And it was up 50% just in the quarter. That's a metric on a very leading indicator, but it's a metric you can think about, which is what's the demand for knowledge about this.

A primary care physician, they've got a tough job, they got to do with everything from headaches to tinea, head to toe, every complication. And in general, particularly in the U.S. market, they've got very little time. I think it's on average 5 to 7 minutes with a patient on an annual basis. And that's -- and they've got to assess everything.

And so the fact that we can get sleep health on their radar, but maybe a pharma company has told them come in and ask for an injectable that might help with your sleep health and then -- and your breathing health. And then they come in and talk to the PCP. If they've done our education, that PCP knows where to send a patient to a home sleep apnea testing protocol. They know what is gold standard CPAP, APAP and bilevel, the only therapy that can completely eliminate your AHI back to zero, if used perfectly and as directed.

And they know what the backup plan is on dental and the backup to the backup plan, which is a pharma solution. And they're writing prescriptions. And so it's happening. As I said earlier, we're not yet quantifying exactly how much that we are seeing that comes through PCPs or from referrals of big pharma and big tech into PCPs versus that are coming sort of organically through our demand generation that we're driving or through the general organic demand that we've seen over the last decades in our space.

But we are investing in this PCP channel. We're going to continue to invest in education. What I love about doing it is CME education is it's pure. It's true. Yes, it has the Resmed brand on the last page, we get a little bit there. But it's all done according to the American Academy of Sleep Medicine guidelines.

So it's in line with what the doctors are saying on those guidelines, and it just helps the PCP say, -- okay, here's the pathway and here's what I should do. And look, many of you of the sell side here are doing channel checks and talking to everyone. Even ENT surgeons are saying, no, gold standard, of course. Even though they make money from doing the surgery, they're saying gold standard is this noninvasive, completely reversible incredibly effective positive air pressure therapy.

So we're seeing that. The PCPs know it, and it's just helping them find a pathway. So here's a screening protocol. Here's a home sleep apnea testing service. And here's a referral pathway to a specialist and a DME, that's going to take care and get very high adherence for you, and you'll get the update on the next physical with this patient through a digital platform into your Epic or your Cerner or your Allscripts, whatever you use because we have API calls going in and out hundreds of times a second into and out of our AirView system to the doctor systems.

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Thanks for the question, Brandon. And we'll continue to update you on those leading metrics for PCP education and more as we get more comfortable sharing across that new channel that we're developing. Thanks for the question.

Operator

Nathan Treybeck, Wells Fargo.

Nathan Treybeck - *Wells Fargo Securities LLC - Analyst*

Great, thanks for taking the question. Congrats on a great quarter. Are you seeing anything that would suggest that U.S. mask strength that you saw in fiscal Q2 will persist at that level into the second half of the year? Thanks.

Mick Farrell - *Resmed Inc - Chief Executive Officer and Chairman of the Board*

Yeah, thanks for the question, Nathan. Yeah, I mean, U.S. masks, accessories and other growth was 16% in the quarter, an incredible performance from our U.S. and broader Americas team. Look, I mean market growth is in the high single digits. So we don't expect to outperform by whatever. If you take 9% as high single digit by 700 basis points every quarter.

And as Brett said earlier, there was some contribution from VirtuOx, on that accessory side. So even taking out that -- and we've had double-digit growth in VirtuOx, by the way, which is great and does feed the core business in new patient flow. But even taking out VirtuOx, we're still in the high single -- we're still in the double digits. So still beating the high single-digit market growth.

And so what do we do? Well, we have promotion campaigns. We talk to people about getting a new mask, and we engage with people through Brightree, through myAir and through our DME partners. And in other parts of the world, we did this as well. And so we're having some success with that. You can't do that every quarter, and you can't drive it every quarter, but I do think we can meet and beat that high single-digit growth of masks every quarter as we go meet and/or beat. And the beat is like this come where we get the brand ROI, we get the demand gen ROI, and we have good promotional programs that play out there.

So it's a portfolio management, it's a balance, and we're balancing our investments, I think, pretty well, 6% to 7% into revenue and 19% to 20% into R&D from revenue and 19% to 20% of revenue into SG&A, the sort of sales and marketing programs. And I think we're doing a very efficient job. And I can tell you, on the marketing team, now one global team is looking at the ROI of every single program down to the return on advertising spend, the ROI of that individual metropolitan statistical area, what program did we run? How did it go?

And if it's profitable, of course, we'll continue to do it. If it's not, we stop and then rejoin. And so it's not perfect and smooth we won't outperform every quarter, but I'm really proud of the team and proud to report these numbers. And I challenged them to outperform every quarter. I just expect them to meet and/or beat that high single-digit growth, and they clearly beat it this quarter.

Thanks for the question, Nathan.

Operator

Thank you. We have 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.

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Mick Farrell - *Resmed Inc - Chief Executive Officer and Chairman of the Board*

Well, thanks, Kevin, and thank you to everyone for joining us on our earnings call today on behalf of more than 10,000 Resmedians serving people in 140 countries worldwide. I'm pleased to say we're able to deliver another strong quarter of performance and continue to build value for all of our shareholders. We'll talk to you -- many of you over the coming days and weeks. And we'll talk to many of you right here in 90 days.

And with that, Salli, I'll hand over to you to close out the call.

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

Great. Thank you, Mick. I'll echo Mick's thank you to everyone for listening. We really appreciate your time and interest. If you have any additional questions, please don't hesitate to reach out directly to InvestorRelations@Resmed.com or anyone on the Resmed IR team.

Kevin, you may now close out the call.

Operator

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

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