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RMD.N - Q1 2025 ResMed Inc Earnings Call

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## OVERVIEW:

Company Summary

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

**Brett Sandercock** *Resmed Inc - Chief Financial Officer*

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**Jimmy Beers** *William Blair - Analyst*

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## PRESENTATION

### Operator

Hello, and welcome to the Q1 fiscal year 2025 ResMed Earnings conference call. My name is Kevin, and I'll be your operator for today's call. (Operator Instructions) Please note this conference call is being recorded.

I'll now turn the call over to Amy Wakeham, Chief Investor Relations Officer. Amy, you may begin.

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### **Amy Wakeham** - *Resmed Inc - Chief Investor Relations Officer*

Great. Thank you, Kevin. Hi, everyone, and welcome to ResMed's first quarter fiscal year 2025 earnings call. As Kevin said, 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 helpful information for investors. This information is not intended to be considered in isolation or as a substitute for the reported 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 ResMed's Chairman and CEO, Mick Farrell.

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

Thanks, Amy, and welcome to all of our shareholders for joining us today as we review ResMed's first quarter results for fiscal year 2025. I'm pleased to report another strong quarter of growth across all of our business segments.

We've seen solid revenue growth, improved gross margins and disciplined investments in both SG&A and R&D, resulting in very strong profit performance. The results we are presenting today reflect the hard work of the 10,000-plus ResMedians operating in over 140 countries worldwide and the dedication they bring to improving the lives of patients physicians, providers and all of our customers every day.

Before delving into the details of our financial and strategic initiatives, I want to emphasize that the results we are presenting here today are not just financial in nature. They represent an improvement in health outcomes for many tens of millions of people worldwide.

Our mission here at ResMed is to create life-changing health care technologies that people love through cloud connectable medical devices, masks and accessories, digital health platforms as well as ongoing investments in the latest technology, including ML and AI and Gen AI. We are committed to helping hundreds of millions of people so that they can breathe better, sleep better and live longer and higher-quality lives, living the lives that they can to their fullest potential.

Now turning to a high-level review of the financials. I'm proud to report that we delivered another strong quarter. Revenue grew by 11%, reflecting strong demand for sleep health and breathing health medical devices, our masks and accessories as well as our residential care software offerings. We achieved double-digit revenue growth across all product and geographic categories this quarter.

Masks and accessories growth was augmented by new patient activations as well as ongoing ReSupply. Our global device sales were driven by strong market performance from both the AirSense 10 and the AirSense 11 platforms. Our focus on operating excellence programs helped us drive operating leverage during the quarter.

We achieved 27% growth in our operating profit and we further achieved 34% growth in earnings per share. We're committed to driving increased efficiencies, managing our operating expenses prudently and investing in areas that power long-term sustainable growth. By balancing strategic investments with cost discipline, together, we're driving an ongoing and sustainable profitable growth here at ResMed.

Device sales remained strong, growing by a double-digit percentage year over year, and we continue to maintain market leadership with our two AirSense platforms. We're supporting the global market and every patient or provider who needs a device has access to our market-leading, 100% cloud connectable platforms, the AirSense 10 and the AirSense 11.

We are increasing the availability of our AirSense 11 platform worldwide with regulatory approvals expanding country by country. We will see ongoing momentum.

Our masks and accessories business had another strong quarter, delivering 11% year-over-year growth. The AirFit F40, ResMed's smallest aural nasal mask ever, continues to perform well in the US market, and we're expanding the F40s availability across additional global markets.

The F40 has a proprietary adaptive seal technology. Combined with its lightweight and compact design, it has been incredibly well received. The F40 is praised for its fit, it's comfort and its adaptability, especially for patients who move frequently during sleep.

At our Investor Day on September 30, we announced the upcoming launch of our latest mask innovation, the AirTouch N30i. Today, I can announce that this amazing new technology will be launched into select markets next week.

The AirTouch N30i is ResMed's first mask with a fabric, wrapped frame and a fabric-based patient interface with a soft, breathable fabric system for optimal comfort. The way I see it, we sleep with fabric covered pillows and fabric sheets like cotton, why can't we have CPAP mask technology that feels just as good?

We believe this mask technology will set a new standard for CPAP, APAP and bilevel patient interface therapy and will help more people love their therapy, including how they feel in the morning and all day all because they can achieve longer and high quality sleep. This technology has been years in the making, and we are very proud to be able to deliver it to customers starting next week.

ReSupply programs remain a critical element of our strategy to drive adherence to improve patient outcomes and to enhance long-term clinical results. Our digital health ecosystem empowers ReSupply through three market-leading platforms, including myAir for patients, AirView for physicians and providers as well as Brightree for home medical equipment or HME providers.

Published research shows that patients enrolled in ReSupply programs have higher therapy adherence rates in the first year and over the long term. As we expand these types of ReSupply programs globally, we expect to see continued positive impacts on patient outcomes as well as reduced overall health care system costs. We're proud of the progress we've made, and we're excited about the opportunities in front of us.

Let's now talk about two significant macro trends that we've reviewed over recent quarters, namely consumer wearables and a new class of pharmaceutical medicines called GLP-1s. We believe that both of these macro trends will have significant impact on our business as tailwinds.

Let me start with a discussion of GLP-1 medications with a focus on the latest generation of these medicines that are targeted specifically to treat diabetes and now obesity and beyond. We've designed a real-world data analysis with now N equals 989,000 subjects who received both a prescription for a GLP-1 medication and a prescription for positive airway pressure therapy.

The results from this analysis are clear. People prescribed the GLP-1 and PAP therapy have 10.8 absolute percentage points more likelihood or propensity to commence positive airway pressure therapy, 10.8 absolute percentage points higher.

Moreover, once on therapy, people with a GLP-1 prescription and a PAP prescription appear to be even more committed to long-term therapy adherence. Our analysis shows that after 12 months, the ReSupply rate for patients with GLP-1s and PAP prescriptions is 3.2 absolute percentage points higher.

At 24 months, this expands even further and the ReSupply rate difference increases to 5.3 absolute percentage points higher for patients on both a GLP-1 and a PAP prescription. This suggests that patients who start GLP-1 therapy are also motivated to start and adhere to their sleep apnea treatment. As these therapies continue to expand in use, we believe that it will be a clear tailwind for our business.

Next, let's turn to the consumer wearables macro trend. In July, Samsung began selling its latest generation Galaxy Watch, which now includes detection of moderate to severe sleep apnea. Samsung achieved de novo FDA clearance for this capability.

Just last month, Apple introduced its latest generation Apple watches with its own version of possible sleep apnea detection using [actigraphy] technology tracked over multiple weeks as its detection method. It's incredible to have two world-leading consumer technology companies recognize the importance of tracking sleep health and identifying sleep apnea.

In addition to these technologies from Apple and Samsung, other wearables like Google's Fitbit, Garmin, Aura, Whoop and beyond are focusing on sleep health tracking. We see this investment by consumer wearable companies as an incredible once-in-a-generation opportunity for sleep health and breathing health awareness and particularly for sleep apnea awareness.

We believe that these technologies will help drive more patients to seek out information regarding their sleep health and breathing health. ResMed's obligation is to help these sleep health and breathing health consumers find their own pathway to appropriate diagnosis and treatment for sleep apnea, where ResMed leads the world with the most clinically effective, the most noninvasive, the most proven and the most cost-effective solutions for care.

Our strong competitive position here at ResMed is underpinned by continuous innovation. Our commitment to patient care and our digital health ecosystem. We've made significant investments in our product offerings, including the expansion of the availability of cloud connectable devices the integration of artificial intelligence into our latest and greatest digital offerings and the scaling of our digital health tools, such as our patient management system called AirView and our consumer engagement application called MyAir, which now has over 8.8 million users globally.

Additionally, we recently announced the ability to integrate our own wearable home sleep apnea test system that's called NightOwl with our MyAir platform. This will enable a more streamlined diagnosis process and provide improved consumer engagement on their path to therapy.

Let's now turn to our long-term vision for growth, what we call our ResMed 2030 strategy. As we outlined during our recent Investor Day, just over three weeks ago at the New York Stock Exchange, this strategy is centered on three key pillars: one, growing and differentiating our core sleep health and breathing health business; two, expanding into near and adjacent areas; and three, leveraging our leadership in digital health to drive better outcomes for patients, physicians, providers and payers.

Let me cover some high-level thoughts on each of these three pillars, and then I'll hand the call over to Brett. And after that, we'll go into our Q&A session. So one, sleep health and breathing health. Here at ResMed, we are laser-focused on maintaining and expanding our global leadership in sleep health and breathing health.

Our goal is to bring the best products to market, products that are the smallest, the quietest, the most comfortable, the most connected and the most intelligent. The term CPAP has traditionally stood for continuous positive airway pressure.

Taking some artistic license, I would propose that it now stands for computerized positive airway pressure. And the smarts go beyond the devices themselves. By liberating the data to the cloud, here at ResMed, we can engage with patients, with physicians, providers and whole health care systems like never before.

We now have approximately 20 billion nights of sleep health and breathing health data in the cloud. And we have more than 27 million 100% cloud connectable devices that we have provided in over 140 countries worldwide.

This allows us to partner with patients, physicians, providers and beyond with unparalleled insights, ultimately leading to better product and better software offerings that help patients and their caregivers achieve better health outcomes, lower costs for the overall health care system and better management of chronic diseases.

Second, health technology at home. ResMed is the global leader in digital health solutions for care delivered right where people live and often that's right in their own home. We are introducing the basic power of machine learning and artificial intelligence as well as more advanced generative AI to revolutionize health care delivery.

Through platforms like myAir and AirView as well as our broad residential care software offerings, including go-to-market product brands like Brightree, MatrixCare or MEDIFOX DAN, we are making health care more accessible, more efficient and more patient centered. We're also developing AI-driven solutions to further personalize health care and improve therapy adherence.

Let me briefly update on two in-market products in this AI-driven space. Our compliance coach digital offering is helping home medical equipment providers identify the most at-risk patients for adherence issues and is making a significant impact to help deliver timely interventions to improve therapy outcomes for patients as well as their physicians and their providers.

Our latest generative AI-driven consumer product that we call Dawn, is helping more people get access to the information they need. And to answer questions they have about their own personal sleep health, breathing health and beyond.

After just a few months of Dawn being launched into our US market, we've seen 25% of visitors initiate a session with Dawn. This has led to an extraordinary 40% reduction in the volume of direct to live human contact center queries, allowing tech to do what tech does best and our people to connect with customers how they connect best as humans.

The bottom line is these technologies represent higher quality, better outcomes and lower costs for the health care system and we are just getting started. Three, expanding into adjacencies. We are investing in adjacent areas, including insomnia, chronic obstructive pulmonary disease or COPD and other respiratory insufficiency fields, including neuromuscular disease and beyond.

With an aging population and an increasing incidence of chronic diseases, these areas represent significant growth opportunities. We continue to expand our cognitive behavior therapy for insomnia or CBT-I offerings with a product called Somnio, while also looking at other novel technologies in the market, for the 860 million people worldwide who suffer from insomnia, the inability to get to sleep and stay asleep.

We're also building on our leadership in noninvasive ventilation for COPD patients to help develop new pathways for high-flow therapy in the home. The 480 million people who suffer from COPD urgently need better therapy, and we are working on it.

We also believe there's a significant opportunity for ResMed to capitalize on the growing trend of people worldwide seeking better sleep health regardless of whether they have clinically significant sleep apnea. And we're excited to explore what this means for ResMed as we build on our leadership in sleep apnea to extend more broadly into global sleep health, breathing health and in fact, all health technology that's delivered in the home.

As we look ahead, we are more energized than ever by the opportunities in front of us. The global demand for sleep health and breathing health solutions is growing and our mission to help people sleep better, breathe better and live higher-quality lives to their fullest potential continues to drive everything we do.

We have updated our goal aligned with our 2030 strategy and we now plan to empower over 500 million people to reach their fullest potential in 2030 with sleep health, breathing health and health tech at home. With our strong financial foundation, our innovative product pipeline and our expanding digital health ecosystem, we are best positioned to achieve that goal.

ResMed is at the forefront of a rapidly evolving health care technology landscape. We're leading with improving patient outcomes, applying new technology and creating value for all of our stakeholders.

Thank you to the 10,000-plus ResMedians, whose hard work and dedication make our mission possible. And thank you to you, our shareholders, for your continued trust and support.

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

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**Brett Sandercock** - Resmed Inc - Chief Financial Officer

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

We had a strong financial performance in Q1. Group revenue for the September quarter was \$1.22 billion, an increase of 11% on both a headline and constant currency basis. Revenue growth reflects positive and consistent contributions across our product and ReSupply portfolio. Year-over-year movements in foreign currencies positively impacted revenue by approximately \$4 million during the September quarter.

Looking at our geographic revenue distribution and excluding revenue from our residential care software business, sales in US, Canada and Latin America countries increased by 11% and Sales in Europe, Asia and other regions increased by 10%. Globally, device sales increased by 10%, while masks and other sales increased by 11%.

Breaking it down by regional areas. Device sales in the US, Canada and Latin America increased by 11%, supported by solid ongoing new patient demand. Masks and other sales increased by 10%, reflecting growth in both ReSupply and new patient setups.

In Europe, Asia and other regions, device sales increased by 9% on a constant currency basis, while masks and other sales increased by 11%. Residential care software revenue increased by 12% in the September quarter, underpinned by growth from MEDIFOX DAN and continued strong performance from our HME software vertical.

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

Gross margin increased by 320 basis points to 59.2% in the September quarter. The increase was primarily driven by manufacturing efficiencies and component cost improvements and an increase in average selling prices. Sequentially, gross margin was broadly consistent with last quarter.

We continue to monitor potential headwinds that could arise from the Middle East conflict and congestion in Asian ports. We expect increased air and sea freight costs will continue to impact our gross margin throughout fiscal year 2025.

However, we have made good progress expanding gross margin over the last 12 months and we are focused on driving initiatives to further improve our gross margin. Looking forward, we continue to expect gross margin will be in the range of 59% to 60% in fiscal year 2025.

Moving on to operating expenses. SG&A expenses for the first quarter increased by 7%. The increase was predominantly attributable to increases in employee-related costs, SG&A expenses as a percentage of revenue improved to 19.5% compared to 20.2% in the prior year period. Looking forward and subject to currency movements, we expect SG&A expenses as a percentage of revenue to be in the range of 18% to 20% for fiscal year 2025.

R&D expenses for the quarter increased by 4% on a constant currency basis. R&D expenses as a percentage of revenue was 6.5% compared to 6.9% in the prior year period. Looking forward and subject to currency movements, we expect R&D expenses as a percentage of revenue to be in the range of 6% to 7% for fiscal year 2025.

Operating profit for the quarter increased by 27%, underpinned by revenue growth and gross margin expansion. Our net interest expense for the quarter was \$1.7 million, given our low debt levels, we expect net interest expense to be less than \$1 million in the second quarter.

Additionally, we will likely generate net interest income in the second half of fiscal year 2025. Our effective tax rate for the September quarter was 19.2%. We estimate our effective tax rate for fiscal year 2025 will be in the range of 19% to 21%.

Our net income for the September quarter increased by 35%, and non-GAAP diluted earnings per share increased by 34%. The cash flow from operations for the quarter was \$326 million, reflecting solid underlying earnings. Capital expenditure for the quarter was \$18 million, depreciation and amortization for the quarter totaled \$45 million.

We ended the first quarter with a cash balance of \$426 million. During the quarter, we reduced our debt by \$30 million. We have now repaid our variable debt, and our term debt remains at attractive interest rates relative to the current market.

On September 30, we had \$677 million in gross debt and \$251 million in net debt. And we have approximately \$1.5 billion available for drawdown under our revolver facility. We continue to maintain a solid liquidity position.

Today, our Board of Directors declared a quarterly dividend of \$0.53 per share. During the quarter, we purchased 222,000 shares under our previously authorized share buyback program for a consideration of \$50 million.

We plan to purchase shares to the value of approximately \$75 million per quarter through the remainder of fiscal year 2025. This will more than offset any dilution from the vesting of equity to employees during the year. Going forward, we plan to continue to reinvest in growth through R&D, deploy further capital for tuck-in acquisitions and continue our share buyback program.

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

**Amy Wakeham** - Resmed Inc - Chief Investor Relations Officer

Great. Thank you, Brett, Kevin. I'd like to go ahead and turn the call over to you to provide the instructions again and run the Q&A portion of the call. Thank you.

## QUESTIONS AND ANSWERS

**Operator**

Thank you. Now begin the question-and-answer session. (Operator Instructions) Laura Sutcliffe, UBS.

**Laura Sutcliffe** - UBS Equities - Analyst

Just a quick one, do you have any sense of preorders for your new mask? I know it's not available yet, but any sense of what demand looks like for that product?

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

Yes. Thanks for the question, Laura. It's de minimis at this point in terms of not material to the global financials, and so we don't release information like that. But what I can tell you is that we have shown this technology to our commercial teams in our big markets where it's going to launch next week and there is incredible excitement.

The marketing team have put together some fantastic programs, the sales team are ready to take it to customers. But most important here is the product engineering teams and the product management teams, this has been over a decade in development, it's really hard to take fabric and custom apply it on to a liquid silicon rubber and do that at scale.

The scale that ResMed needs to launch a mask like this to the global market. So I'm really excited about this technology. As a personal user of these types of devices, the idea of moving from a rubber type or a plastic type product to fabric is incredible.

I truly think this is a game changer. But very early days and nothing material to report at this point other than the great technology and the excitement of the commercial team.

**Operator**

Craig Wong-Pan, RBC.

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

Just wanted to touch on the rest of the world device's growth. 9% growth is good growth there. I was wondering if there was much benefit coming through from AirSense 11 sales, given that they are higher priced? Or if not, could you just explain some of the kind of growth drivers there for Rest of World devices?



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

Yes. Look, Craig, as you know, that's Europe, Asia PAC and Rest of World. So there's quite a lot that goes into that 9% number. It's certainly very strong, we think we're holding share or taking share in the 140 countries that are included in that broad group of countries.

What I can tell you is it's full competition. All players are in those markets, and we're loving that global competition, and we're loving having the smallest, quietest, the most comfortable devices. As you alluded to in your question, there is obviously some combination of the switch from AirSense 10 to AirSense 11 in the countries where that's improved and that has a higher price and a lower COGS point.

And so there are advantages to that. And in the revenue line, you'll see some of that. But I can tell you, the vast majority of that is volume and just the growth that we're able to achieve and that we're driving through demand gen, demand capture and demand conversion in global markets.

And I'm really just proud of Andrew Huckster and the team in Europe and Tony Liu and the team in Asia Pac, they're just up there and performing really well and excited to -- 12 months in their new role is just really excelling. So great to see that.

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**Operator**

Margaret Kaczor Andrew, William Blair.

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**Jimmy Beers** - William Blair - Analyst

It's Jimmy on for Margaret. Mick, I wanted to maybe touch on devices here, and it's great to see double-digit growth worldwide.

As you've digested the drivers of the strength this quarter and maybe determine what you attribute the strength to, are you seeing any pull-through from Samsung or the spotlight that GLPs are putting on OSA? And maybe just talk to some of the confidence that might be giving you as you look at how ResMed is trying to make an impact in growing the market longer term?

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

Yes, Jimmy. Thanks for the question. It's a good one, it allows us to talk to those macro trends and also the micro -- what happened these last 90 days. Firstly, on the micro, look, US Canada, Latin America device growth was exceptional at 11%.

Just want to be clear, that's on a comp of 2% from this time a year ago. So in Q1 2024, we had 2% growth in US, Canada, Latin America. So very good growth at 11%, but it's on a relatively low comp. So we won't take over credit for that.

But what I will say is that we're definitely holding share and taking share in those markets, and it's great to have the AirSense 10 and AirSense 11 so we can have the number one rated device in the world, which is the AirSense 11 and the number two rated device in the market, which is the AirSense 10 available for sale there.

So I think that has a combination of it. To the specific part of your question around Samsung with their de novo clearance, earlier in the year and then Apple with their most recent launch of the latest watch with possible sleep apnea detection and Samsung with de novo FDA clearance for moderate to severe sleep apnea detection.

I think it's very early days in those new technologies. They've just been rolled out. I think there's a long runway to go as they get them out there and a long runway. If you think about the analog being Apple Watch launching an EKG capability, what, 5, 5.5 years ago. And it's really now just starting to get good flow through cardiology.

I think it will go faster than that, but it won't be in this one or two quarters since Samsung and just a quarter or less since Apple launched theirs. And so really early days there. Look, I do think the GLP-1 trend of getting patients into primary care is helping and we're tracking 989,000 patients now with combo prescriptions for GLP-1s and PAP, and those are having some tailwind effect.

So all these macro trends are positive. What I can tell you is I think it's just getting awareness out there, all this talks to the importance of sleep health, breathing health and that people are thinking about it. Big consumer tech companies, big pharma are thinking about it and people in general are and they're coming into the health care system and they're getting those prescriptions.

So no, really excited about 11% growth in US, Canada, Latin America on a 2% comp, really excited about Europe, Asia and rest of world growth of 9% and global growth of 10% constant currency in our devices category. And look, I'll give credit to the team.

I think the team has done a great job commercially and a great job with our partners in home care providers, physicians, getting prescriptions and helping to expand the diagnostic funnel. Again, early days. We're excited about the flow and really, really proud to report these numbers.

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**Operator**

David Low, JPMorgan.

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**David Low** - *JPMorgan - Analyst*

Thanks very much. Mick, perhaps a similar topic. Mask sales for the last year or so have been double digit looking particularly in the North American market. Just wondering if you could talk about the drivers there.

I mean, what comes to mind is mask per patient is increasing, adherence is increasing and perhaps ResMed's market share is increasing. Can I just touch on what you think the drivers are? And maybe talk a little bit about what to expect in the future, please?

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

Yes, David, it's a good question. You help me answer it with three of the areas where that growth is coming from. Yes. I mean, look, mask and accessories growth in US, Canada and Latin America was at 10%, really solid. That was on an extraordinary comp of 23% from Q1, '24 a year ago.

And so as you said, solid ongoing double digits on double digits growth there. And look, it is, it's a combination of new patients. We're seeing new patient flow to be pretty solid into the system. It's a combination of that plus resupply.

We are expanding Brightree resupply, we're expanding Snap to every Brightree customer that wants it. We actually said three weeks ago at our Investor Day at the New York Stock Exchange, we're going to launch Snap technologies even to non-Brightree customers, we're going to make it operable with whatever ERP type management system you're using for your HME.

We've got really good share with Brightree, but if you're not using Brightree, we don't have to convert you to Brightree, although we want to, we -- to put you on Snap. And so that's a new advance there on ReSupply. So runway left there, yes, I think the masks per patient per year is going up, but there's still a lot of room.

I think there's a lot of people. I mean I talk to them anecdotally. But if you go out and do your channel checks and research, not everybody knows that reimbursement will pay for two, three or even four mask systems per year. And some people are still getting one mask system per year or less.

And so there's a lot of room to improve. Some people are on those programs, and they love it and they get on the subscription ones. I love it because it's an overlap of altruism with the profit motive. The only reason someone is going to buy a new mask is if they're getting good care and pay that co-pay and go through the sign-off that they have to do.

So really good growth there of 10% US, Canada and Latin America. But I'm also really proud of Europe, Asia and rest of world, where we don't have all those systems like Brightree and Snap technologies and all this sophistication that we have with our US HME channel partners. And we have to do it through different methodologies and subscription models and/or direct engagement through home care providers or direct engagement to the consumers, the patients themselves.

And so global growth of 11%, really solid. Look, we still see the market growth is mid-single digits on devices and high single digits on masks. But what you saw is this quarter, ResMed doesn't accept market growth, we drive it. And the third part you said around share -- yes.

Look, this isn't carbonated beverages industry and Coke versus Pepsi or McDonald's versus KFC, this is really around expanding the pie. And so yes, we've done very well in share, have extraordinary good share in AirSense 10, AirSense 11 and our new masks, the F40, great share there in full pace, and I think we'll continue to take some point.

But for me, it's less about that, I want to do that every day. We fight for a share of devices and masks. But more and more, it's about 1 billion people suffocating worldwide, and we're really happy to say we've sold 28 million 100% cloud-connected medical devices. That's 2.8% of the potential, throw in the rest of the market. We're less than 5% into this global market.

And so our biggest opportunity is getting more patients into the funnel. I'm loving that big tech from the consumer side and big pharma are going to bring more patients in. And it's ResMed's job to help those people find the pathway through as I said in the prep remarks. That's how we'll be able to sustain the -- as we said in our Investor Day, high single-digit growth for ResMed and then better growth than that in terms of our profit and better growth in that -- our free cash flow and earnings per share.

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**Operator**

Saul Hadassin, Barrenjoey Capital.

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**Saul Hadassin - Barrenjoey Capital - Analyst**

Maybe one for Brett. Brett, just on working capital, it looked like it was a bit of a headwind this quarter as it related to your operating cash flow and in particular, some inventory build. Can you just talk to -- is there just seasonality in this? Is it just some inventory build as it relates to new product launch or any other issues that you're seeing as it relates to the cost of that inventory that's coming through the balance sheet?

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**Brett Sandercock - Resmed Inc - Chief Financial Officer**

Yes. Thanks, Saul. Yes, a little bit of increase in our inventory if you look at it sequentially on the working capital. But what we've done is we're really in the process of rebalancing on sea freight, air freight and particularly trying to mitigate some of those increased freight costs and freight rates.

So we've increased some stock in transit, which is on the sea, which is increasing our inventory levels in the short term. There may be a little more of an increase in Q2, but then we think it will be pretty stable after that. It's just a process of balancing that. So part of what we're trying to do to mitigate some of those freight costs.

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**Operator**

Anthony Petrone, Mizuho Group.

**Anthony Petrone** - *Mizuho Securities Co. Ltd - Analyst*

Maybe a quick one, Mick, on pricing, Mick or Brett. Last year, you put in some price increases, both devices and ReSupply and I think we're approaching the anniversary of a few of those price actions last year. So maybe just a little bit on the pricing strategy going forward.

Is that going to be a part of the steady diet? And if I could sneak one in there as well, just US DME purchasing patterns, are they holding more inventory and buying more in bulk just because of the supply situation out there?

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

Yes. Thanks, Anthony. I'll have a go at both questions, and Brett, feel free to chime in, Anthony is opening up for both of us. But firstly, on pricing strategy -- yeah.

Look, as we saw during the supply chain crisis, the impacts on electrical components, availability and cost and specifically around semiconductors and comms chips, some really specific price increases we saw from our channel. And as Brad alluded to in his last answer, increase in freight costs, airfreight costs and availability and sea freight costs and availability over the last for 4, 8, 12 quarters have really flowed into our inventory and had a big hit on us.

And so -- and we took that hit four or five quarters ago, you saw us take significant hits from that. We are working through that. And so look, as we work with our customers, we shared some of the pain of those price increases that we saw. We took some of the hit, frankly, at ResMed as the market saw.

And we passed on some of that and saying, look, these costs have gone up. They've gone up for everything, forever, in bread, milk, bananas and fruits. I mean it's happening and frankly, it's interesting to me on the retail side, not all of them have lowered their prices as things have started to come down.

Here at ResMed, look, we're in the health care industry. We understand this is controlled reimbursement in many countries by governments and private payers. And so we partner up with our channel to say, look, what's happening.

And so we shared some of that pain there. I think things are starting to level out somewhat as you saw in our costs. We're managing airfreight better, sea freight better. we're moving our way through those high-cost components.

We're always wary of what could happen with Red Sea issues and Panama Canal issues and even a seaport threat of a union strike just last month. And so we're watching it with a productive sense of paranoia.

But what I can tell you is Shane Azzi, our new Chief Supply Chain Officer, is all over this, and we've got plans to mitigate, and Brett led that group the last six months, so really good communication between our finance team our supply chain team.

So we're all over this. And I think in terms of pricing, sure, you will see some maybe increases in pricing in components and parts where the costs are still high. I'm thinking like tubing and humidity in areas where there's just relatively high costs relative to where we price them.

But in general, I think it will be a benign pricing environment. To the second question about US HME purchasing patterns, no, we really haven't seen any across the market change and how that happens.

I mean there are customers like in Japan, particularly with our large customers there, they tend to buy large bulk purchases and then work through an inventory fleet management system, if you think for the CPAPs and APAPs bilevels and certainly on -- in ventilators. And certainly on the mass side, they then have some level of inventory stocking in Japan.

But in the US, even the large customers, we partner up very well. We look at our supply chain. They don't want to hold excess inventory. We don't want to hold excess inventory. So as we can. It's not a just-in-time market. I worked in chemicals and steel and mining industries where it was just in time, minimum available and just make sure it's just there in time.

This is health care. If somebody misses out on that product, they may not get a life-changing health care technology. So we want to make sure it's available. As Brett said, we have some levels of inventory reasonably high.

But we are looking at efficiency of the supply chain for us our customers. So no major change in US HME purchasing patterns. And our goal is to make sure that it's as just in time as possible with no patient left behind.

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### Operator

Daniel Hurren, MST Marquee.

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### Dan Hurren - MST Marquee - Analyst

Look, we've noticed this term tuck-in acquisition has become very common in your commentary. And then in the presentation, you're pointing out the \$1.5 billion in debt capacity. So I was hoping you could talk just to the M&A priorities and the scale of the M&A priorities, I guess, and how you think about capital management as the free cash really starts to ramp up over the next 12 months as that debt is retired?

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

Okay, Dan. Well, I'll take the first part of that question about tuck-in M&A, and I'll hand to Brett to talk about capital management more broadly as our CFO, and he eats sleeps and breathes that. In terms of tuck-in acquisitions, obviously, I'm not going to go into details of our radar and what we're looking at and conversations we're having.

But what I will talk about is what we've done in terms of successful tuck-in acquisitions. So if you look at what we did around three, four years ago with Snap Technologies, was a tuck-in acquisition that was de minimis in terms of the number. I don't think we even published the number. It was relatively small in terms of our annual cash flow.

But what it did was it gave us the ability to engage with HMEs and engage with their customers, the patients in ways that we hadn't ever before and brought new technology. So it improved both Brightree's residential care software as a service business.

But it also improved our core sleep health and breathing health business by making sure people when they want a new mask, could easily and capably get approval, co-pays made all the Is dotted and Ts crossed for the health care system and then get the product needed that they could get. So we are absolutely out there on the lookout for acquisitions like Snap.

Another tuck-in acquisition I'll talk about is called Somnoware. Somnoware is software for pulmonary and sleep medicine physician practices across the respiratory spectrum. So sleep apnea, COPD and beyond, all sleep health and breathing health.

Again, de minimis in that we didn't release the total number, we didn't need to, but we've got amazing capabilities with that acquisition, a team of engineers here in the US and in India. And actually, a great entrepreneur in Subath, who joined our team. I first met him at a SLEEP meeting maybe 15 years ago.

And he said, I think, at that time, you're going to need us. You're going to buy our technology. And he was right. It was 1.5 decades later, but that was a great tuck-in acquisition and Subath has the office right next door to meetings looking at our incubation and growth and looking at tuck-in acquisitions that are just like the company that he had.

So he's out there at conferences like health and CES along with Carlos Nunez and the rest of our team to look at what those tuck-ins might be. But Somnoware allows us to engage with pulmonary doctors earlier and earlier on this end-to-end digital sleep health concierge process that ResMed wants to be. We're getting earlier and earlier in that with our Somnoware acquisition.

Final one I'll talk about. I can talk all day on it, but our final one for this is a tuck-in M&A that we did of a technology from a company called Ectosense and the technology is called NightOwl and I actually just talked in the prep remarks about how we've just integrated NightOwl with the MyAir platform, the patient consumer app and NightOwl.

NightOwl is a home sleep apnea test that is basically a wearable. I mean, it's the size of a Band-Aid with a sensor that goes on your finger. And with that connected to your smartphone, we can get very high sensitivity and specificity.

Sensitivity and specificity well higher than you get from some of these other wearables I talked about from consumer tech companies because we're doing different things. They're both FDA 510(k) cleared devices, but ours is designed to be a diagnostic, a home sleep apnea test that can be a diagnostic and a prescription written from a pulmonary physician. Great tuck-in acquisition.

Again, we didn't release the number. It was relatively small, and that's why it's a tuck-in. But that technology scaled by ResMed in 140 countries, and we're just ready to relaunch it here in the US market, I think the timing couldn't be better. because if Samsung and Apple will get these people thinking, oh, possible sleep apnea from my phone or maybe I've got this moderate sleep apnea detection.

Where do I go? Well, guess what? They go to a primary care physician or they go to a sleep physician. And then we need digital scalable models for them. So a product like NightOwl helps with that.

And we're creating not just in our own diagnostics but a portfolio of capabilities with other diagnostics companies and service providers in the US and beyond because that digital sleep health concierge is an obligation for ResMed. People are going to come with problems of sleep health and breathing health.

We don't want them waiting in a do-loop we want them taken care of. So they are the three examples of tuck-in acquisitions and more to come on that. Brett, in terms of capital allocation, any thoughts to share with Dan on a broader level?

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**Brett Sandercock** - Resmed Inc - Chief Financial Officer

Yes. Thanks, Mick. And Dan, when you think about the tuck-ins, we've got -- and Mick articulated some great examples, which we think are going to add a ton of value over time. And we're continuously looking at these acquisitions.

But in terms of quantum, tuck-in, I guess that's fairly broad, \$100 million, \$200 million, it could be, given our balance sheet and size now, it could be up to \$500 million, Dan. It just depends what the acquisitions strategically like, financially like, culturally like and then what capability it can bring into ResMed and how we might leverage that.

So we think pretty hard about before we actually make the acquisition. But they've been really good acquisitions over the last two or three years. And there's more out there as the market continues to develop. So anything in that range, I think we would look at.

And then the other side on capital management, and you heard my comments earlier, we will increase the buyback each quarter going forward, and that obviously remains a lever for us going forward. So that's the two areas, I guess, well eight or three really fundamentally R&D investment, where we get -- that's the greatest return we get.

We'll look at -- as Mick said, we'll look at the tuck-in acquisitions. And then we'll do some capital management as well as the three areas of focus.

**Operator**

Mike Matson, Needham & Company.

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

I guess I just wanted to ask one. So with the new -- on masks, with the new N30i with that fabric over the straps, is that a technology that you can apply to other masks in your portfolio? And then is that something that you're able to get a price premium for?

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

Yes, it's a great question, Mike, and thanks for coming to our Investor Day. You were able to touch and see that product because I think you've really got to touch and see what the AirTouch N30i is. It's in its name, right? It's an AirTouch. That fabric is -- it's extraordinarily advanced technology.

As I said, we've been looking for a decade at fabrics and how to get them at scale and with efficacy on a mask that could be ResMed quality, and we were able to bring that to market. To your question, can we apply that technology to other marks?

Absolutely. I think this is a game changer and it changes the basis of competition for how patient interfaces are delivered from plastics and rubbers, medical type products that you might find in a hospital to ones that you might find at home.

People sleep on cotton or silk fabric sheets. They have a cotton -- carbon pillow they don't sleep on plastic, why should that part be delivering care on your face. If we can get the pneumatic stent at safety, efficacious and long-term capability.

But to your question, yes, it is a high cost. It's more difficult to have these machinery robotics and scalable systems that can do this even with ResMed having the biggest manufacturing footprint on the planet in the field of respiratory medicine, sleep health and breathing health.

Costs are still higher with the new technology like this. So pricing will be slightly higher for these types of products because the costs are higher.

But I think what you'll find is that first time fit rates will go up, that return rates will go down and that adherence rates will go up as we do with all our technology, that's the goal, lower the cost of the overall health care system, improve adherence, which means less chances of heart attacks, stroke, less chances of death, as we've shown in the Alaska study for patients who are adherent on CPAP versus not.

And we think that these types of improvements will have a huge return on investment for the patient, for the physician, for the provider as we launch them to market. So yes, the AirTouch N30i is coming out, it will have a price premium because it's got a higher cost. We can take it to other masks, and we will over time.

But early days, we're just launching it next week. Lots of interest and excitement from our commercial team and the customers who have got sneak preview, and we're excited about AirTouch N30i and what it can do more broadly across the world.

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**Operator**

Brett Fishbin, KeyBanc Capital Markets.

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

I just wanted to follow up a little bit on the macro tailwind around the wearable tech platforms. You've talked about it a bunch at the Investor Day and then again on today's call. I was just curious if you could maybe touch on a few potential strategies that the company could be looking at that would best position ResMed to capture potential increases in new patient demand driven by the adoption of these technologies.

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

Yes, it's a great question, Brett. I mean, it's a complex answer. It could take all of the eight minutes we've got left on the call and longer. But as you heard in the four-hour overview that we gave on our Investor Day three weeks ago, there's lots of things we're doing in this.

The broad categories are demand generation, demand capture and demand conversion, three areas. Now if big tech and big pharma are taking on some of that demand gen, right, driving people into PCPs, driving people into specialist sleep physicians, then what we have to do at ResMed is take the next phase in that.

So what we have to do is have products like Dawn, our generative AI interaction format. They can talk and engage with patients to help them if they've just got sleep health questions about getting better, sleep, drinking more water, exercising more, less alcohol after certain times, less caffeine after certain times, different food and timing of food intake. All these type of broader sleep health can be conducted by a bot at levels that -- just human banks of callers don't have time for and don't spend as much time on and people can be embarrassed to ask some questions about sleep health and breathing health.

There's a stigma associated with all health care, and that's why companies like Hims and Hers and all these other type of digital platforms that are out there and achieving some success. And so ResMed wants to be that digital sleep health concierge and as I said, the answer is complex.

It's more than just Dawn, it's more than just Somnoware, it's more than just MyAir, it's more than just our AirView and the whole combination. But it is those components. And it's how you stitch them together and how you create that seamless, frictionless end-to-end experience for a person.

Let's stop calling them a consumer, let's stop calling them a patient, let's say it's a person who suffocates and is looking for their own care. Or their spouse and bed partners care and so we're really focused on this, and we think these macro trends are going to drive patients in, consumers in, persons in.

And ResMed's job is to do the best job at capture and demand conversion. And we've got many experiments around 140 countries, and we'll update you. It's not going to be one hit wonder, oh, here, we've got the panacea and it's this, no, there's going to be multiple attempts in different areas, different MSAs, different technologies, different health care systems.

Every person is different. All of the 1 billion people sleep apnea, the 2.3 billion with Sleep Apnea or insomnia or COPD or some combination of the above with respirator insufficiency, they all need an individualized, personalized pathway to better sleep, better health and better health technology at home.

So ResMed's goal is to capture across that with a combination of technologies. And as we launch them and as the experiments are successful, we'll let you know. I want to be clear, this isn't just about brand awareness and brand driving.

This is about brand ROI, return on investment that we show the experiments are successful, that the people see the ResMed brand, they engage with them and then they find a path to better sleep health and breathing health. And we're best positioned globally to do this with our market share and capability.

If we did nothing, we get good share. I think our goal and our obligation is to do a lot and to drive more patients in and to help them find that best path that they can have. Thanks for the question, Brett. And sorry, to trivialize the answer with only a four-minute answer, but we probably got time for a couple more questions.

**Operator**

Suraj Kalia, Oppenheimer.



**Suraj Kalia** - *Oppenheimer & Co., Inc. - Analyst*

Mick, I want to piggyback on Anthony's question, right? So your nominal growth right now is a perfect trifecta of pushing more ReSupply masks to patient price increases believe Brett mentioned something about a little bit of inventory also to cater to patients just in time. Mick, as we think forward, how would you say ResMed is buffer from a potentially more price-sensitive environment if and when Philips returns to the market?

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

Yes. Thanks for the question, Suraj. Look, as you said, there's some really interesting overlays between our -- more masks and the technology we're bringing to market, our pricing strategies and our inventory management strategies.

With regard to the competitor you mentioned, look, as I said, we just announced pretty good growth in Europe, Asia, rest of world, right? 9% growth in devices 11% growth in masks and accessories. That competitor is available in almost all of the 140 countries we're in, and they've been there for many, many, many quarters.

And so love them. I love to compete with them. I love to beat them. I do the same with all the other competitors. I love the players from Europe and Asia. Competition is a fantastic thing for ResMed.

We love it. It keeps us on our toes. And we were beating that particular competitor all the way from 2001 through to 2021, as they had the recall in the US in devices, which is the only area, right?

So we've been ongoing competition with them in masks the whole time, and they've been out for a couple of years, two or three years now in devices. Look, I look forward to them coming back here. They'll have to fight for that number two, number three position against some other players with importing products in China and Europe that they've taken that number two, number three position.

And I think they've got to set up new manufacturing and get a new sales team. And I look forward to them coming back. We we're beating them before their recall and we will beat them after. But look, I don't spend that much time, on my time looking back at the competition from Europe or Asia or that particular player from Europe. I look more forward.

And I think about these macro trends and what we can do to take care because this isn't just a share gain. What we've got is a sustainable competitive advantage in a digital health ecosystem that patients engaging with MyAir, doctors engaging with AirView.

And more importantly, consumers, persons who just suffocate coming in, they don't know where they want to go. We want to help them find that pathway and be objective about it.

And then they will choose the smallest, quietest, most comfortable, most connected and most intelligent therapies. That's how ResMed competes. And that's how ResMed wins.

**Operator**

Lyanne Harrison, Bank of America.

**Lyanne Harrison** - *BofA Global Research - Analyst*

Can you comment a little bit on the production of AS 11? You mentioned you're increasing you're targeting it to come off allocation at the end of this calendar year. Is that still on track?

And then also, can you comment on the mix of AS 11 to AS 10 devices that you're selling in the United States? And do you have a sense that there might be a backlog waiting for the AirSense 11 still?

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

Thanks, Lyanne. Yes, there's a lot in that question, and we're almost right on time. We may have one more question, I think. So yes, as you said, production of AirSense 11 is firing on all cylinders. Our Singapore plant, which is, as I said earlier, is the largest manufacturing plant in the world for respiratory medical care.

That thing is pumping out and really at full capacity. And I'm really excited to have AirSense 11 coming off that line and AirSense 10 coming out of there and Sydney and beyond and through Atlanta and through our distribution centers throughout Asia and Europe.

And so to your specific question, AirSense 11 firing and really, really strong rate limiters to growth are just that we're the number one and number two player between AirSense 11 and AirSense 10 in many of these markets. And so there is a mix as you said.

In the US, specifically, you asked, Lyanne, well over 50%, vast, vast majority of products sold in the US are AirSense 11. To the final part of your question, do we think that there are people at that I've been on therapy for five years and insurance will pay for a new one. I'm waiting until AirSense 11 is available.

Yes, may be some a little bit of a backlog with some particular consumers if you really want one consumer at that level might be going to one of the online dealers or looking at other ways to make sure they get in line for an AirSense 11.

So I think there's always a bit of a backlog. I always think that re-pap opportunity is huge for us. We don't spend enough time on it. Our customers don't spend enough time on it. We've got really sophisticated at ongoing ReSupply for masks, tubing and accessories.

I think we need to be better at re-pap on a regular basis. And so it's a good call out and the team are on it with many things going on to make sure that as we get full AirSense 11 capabilities, everyone who's at that five-year point gets the chance to say, yes, I want the latest and greatest therapy, smallest, quietest, most comfortable most connected and most intelligent and that's the AirSense 11.

So we will continue to do that. As I said in the prep remarks, I think there's a long runway, lots of momentum left on the AirSense 11.

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**Operator**

Andrew Paine, CLSA.

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**Andrew Paine** - CLSA - Analyst

Look, just going back to the rest of world devices and just thinking about the EU sales, just need you good to get some views on competition that you're seeing in the region, in particular, if you're seeing a declining presence from fill-ups in some of these markets, which would open you up to taking a larger market share?

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

Yes. Thanks for the question, Andrew. And yes, look, we're competing with another particular European player, probably a little bit more than the one you mentioned. But we're competing with both of them very well, as you saw with Europe, Asia, rest of world device growth at 9%.

We don't break that out and say exactly what component of that is Europe versus Asia Pac versus Rest of World. And we did have very good growth in our Japan markets and China markets and other parts of Asia Pac. But Europe is doing very well.

As I said, I'm really proud of the team there. We've really brought together our pan-European management team over these last 12 months under our global Chief Revenue Officer, Mike Fliss, and our regional leader there in Andrew Huxter. And I think that combination of communication and partnership across our team has allowed us to provide customers even more seamless and better service, better marketing, better sales, better delivery of products.

And we've not always been the best in that final mile of delivery, that final kilometer of delivery that we need to have in Europe, and we're getting better and better at it. So I think it's a combination of the products, AirSense 11, the communications through our commercial teams and the supply chain and logistics that we're really partnering up with customers that have allowed us to achieve that.

The competitive environment is what it always was, but as you see in those numbers, ResMed is doing well competing hard and winning accounts, winning tenders and winning share. But more importantly than that, we're partnering up to ensure good flow of patients into the funnel, that's ResMed's primary goal more patients into the funnel, help them get best-in-class care. Thank you for the questions, team. I'll now hand the call over to Kevin.

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**Operator**

We reached the end of our question-and-answer session. Mick, do you have any further closing comments?

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

Yes, look, they got the prepared remarks here. I'm not going to say all that. Thanks to 10,000 ResMedians, 140 countries. You guys are doing amazing things. Thank you to all our shareholders for the support, incredible quarter. Let's power up and let's do it again for another 90 days. And with that, Amy, I'll hand over to you to close out the call.

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**Amy Wakeham** - Resmed Inc - Chief Investor Relations Officer

Awesome. Thank you, Mick. Thank you, everyone, for listening for your questions, and we do appreciate your interest. If you have follow-up questions or need anything else, please don't hesitate to reach out to us directly. This does conclude our first quarter 2025 conference call. Kevin, you may now close the call.

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**Operator**

Thank you. This concludes ResMed's First Quarter Fiscal Year 2025 Earnings Live Webcast. You may now disconnect.

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