

# ResMed Inc.

# 2Q24 Preview: To beat on masks; Margin positive surprise possible

Reiterate Rating: BUY | PO: 220.00 USD | Price: 177.89 USD

# 2Q24 preview: BofA more positive than Street

BofAe 2Q24 more positive than Street on both rev \$1,164m (cons \$1,147m; +1%) and non-GAAP NPAT \$273m (\$265m; +3%). Reit Buy. PO US\$220 unchanged.

**ROW** devices recall tailwinds continue this quarter: BofAe \$590m device rev (+4% seq; +8% pcp; cons \$586m). We expect solid growth from both US (\$363m: +5%) and ROW (\$227m: +10%cc) given (1) US channel checks show AS11 readily available nationally; (2) AS11 sales expansion into key ROW markets; (3) ROW recall tailwinds continue in 2Q despite Philips device sales resumption as channels still hold RMD inventory. Growth to moderate in future quarters as RMD inventory runs down. We note Stronger EUR/USD (+5% pcp) to provide additional tailwinds.

**Masks resupply strength to continue:** BofAe \$434m mask rev (+16% pcp; cons \$418m). We expect masks to beat supported by: (1) Seasonally strong quarterly revenue as US customers purchase ahead of deductable reset; (2) Continued focus on resupply initiatives; (3) Strong flow of new patient starts; (4) Stronger EUR/USD (+5% pcp) to provide FX tailwinds. We do not expect RMD's end-2Q mask magnet concerns to have any material impact on mask sales.

**SaaS growth supported by MfD:** BofA \$140m SaaS rev (+32% pcp; Cons \$143m). This is the last quarter before we cycle out MfD acquisition (Nov22). Expect 2Q HSD growth from US SaaS operations.

**Possible margin positive surprise:** In our view, margins have troughed. We forecast +20bpts seq quarter; but -40bpts pcp. Key points: (1) Higher price point AS11 margin tailwind, offset by heavy discounting of the AS10 C2C device. However, positive AS11 volumes should outweigh the C2C; (2) ROW mix to drag on margins; (3) Positive surprise possible if RMD has managed to renegotiate input supply contracts earlier than expected (last quarter RMD noted contract cycling to largely occur in 2H24).

Estimates (Jun) (US\$)	2022A	2023A	2024E	2025E	2026E
Net Profit b/f Abnormals	779	898	993	1,100	1,236
EPS	5.79	6.49	7.28	8.04	8.97
EPS Change (YoY)	63.6%	14.9%	10.6%	11.1%	12.4%
Dividend / Share	1.68	1.83	2.04	2.26	2.54
Free Cash Flow / Share	1.47	3.89	6.45	7.73	10.29
Common - Dual Listed EPS (US\$)	0.579	0.649	0.728	0.804	0.897
Common - Dual Listed Dividend / Share (US\$)	0.168	0.183	0.204	0.226	0.254
Valuation (Jun)					
P/E	30.75x	27.40x	24.42x	22.14x	19.84x
Dividend Yield	0.944%	1.03%	1.15%	1.27%	1.43%
EV / EBITDA*	23.12x	21.49x	18.39x	16.63x	14.45x
Free Cash Flow Yield*	0.827%	2.19%	3.63%	4.34%	5.78%
* For full definitions of <i>IQ</i> method <sup>5M</sup> measures, see page 8.					

<sup>&</sup>gt;> Employed by a non-US affiliate of BofAS and is not registered/qualified as a research analyst under the FINRA rules.

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Refer to important disclosures on page 9 to 12. Analyst Certification on page 6. Price
Objective Basis/Risk on page 6.

Timestamp: 12 January 2024 06:18AM EST

#### 12 January 2024

#### Equity

Key Changes		
(US\$)	Previous	Current
2024E Rev (m)	4,621.9	4,643.6
2025E Rev (m)	4,908.7	4,896.9
2026E Rev (m)	5,295.4	5,283.0
2024E EPS	6.93	7.28
2025E EPS	8.09	8.04
2026E EPS	9.14	8.97

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#### Stock Data

Price (NYS / ASX)	177.89 USD / 26.45 AUD
Price Objective	220.00 USD / 33.00 AUD
Date Established	17-Oct-2023 / 17-Oct-
	2023
Investment Opinion	B-1-7 / C-1-7
52-Week Range	132.24 USD-243.52 USD
Market Value (mn)	26,164 USD
Shares Outstanding (mn)	147.1 / 1,470.8
Average Daily Value (mn)	158.61 USD
Free Float	99.1%
BofA Ticker / Exchange	RMD / NYS
BofA Ticker / Exchange	RSMDF / ASX
Bloomberg / Reuters	RMD US / RMD.N
ROE (2024E)	24.5%
Net Dbt to Eqty (NAA)	32.7%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

#### Glossary:

AS11: AirSense11 C2C: card to cloud MfD: Medifox Dan ROW: Rest of World

# **iQ**profile<sup>™</sup> ResMed Inc.

(ey Income Statement Data (Jun)	2022A	2023A	2024E	2025E	2026E
US\$ Millions)					
Sales	3,578	4,223	4,644	4,897	5,283
Associates & Other Revenue	0	0	0	0	0
Operating Expenses	(2,418)	(2,935)	(3,158)	(3,308)	(3,533)
EBITDA	1,160	1,288	1,486	1,589	1,750
Depreciation & Amortization	(160)	(156)	(180)	(180)	(180)
EBIT	1,000	1,132	1,306	1,409	1,570
Net Interest & Other income	(22)	(47)	(60)	(38)	(28)
Pretax Income	978	1,085	1,246	1,371	1,542
Tax (expense) / Benefit	(199)	(187)	(253)	(272)	(306)
Outside Equity interest in Npat	NA	NA	NA	NA	NA
Preference dividends	NA	NA	NA	NA	NA
Net Profit b/f Abnormals	779	898	993	1,100	1,236
Non-Recurring Items	0	0	0	0	0
Net Income (Reported)	779	898	993	1,100	1,236
Key Cash Flow Statement Data					
EBITDA	1,160	1,288	1,486	1,589	1,750
Change in Working Capital	(708)	(462)	(133)	(34)	206
Other C'flow Items before int & tax	0	0	0	Ó	C
Net Interest Paid	0	0	0	0	C
Tax Paid	NA	NA	NA	NA	NΔ
Other C'flow from Operations	(101)	(132)	(282)	(310)	(334)
Cash Flow from Operations	351	693	1,071	1,245	1,622
Capital Expenditure (PP&E)	(135)	(120)	(120)	(110)	(110)
(Acquisition) / Disposal of Investments	(14)	(28)	(41)	0	C
Other C'flow from Investing	(81)	(1,012)	(116)	0	C
Cash Flow from Investing	(230)	(1,160)	(277)	(110)	(110)
Shares Issue / (Repurchase)	47	49	1	0	C
Dividend paid	(245)	(258)	(295)	(330)	(371)
Other C'flow from Financing	70	632	(474)	NA	NA
Cash Flow from Financing	(128)	423	(768)	NA	NA
Free Cash Flow	216	574	951	1,135	1,512
Net Debt	644	1,352	1,003	198	(943)
Key Balance Sheet Data					
Cash Equivalents	274	228	250	300	1,187
Receivables & Inventories	1,320	1,703	1,781	1,848	1,656
Property, Plant & Equipment	498	538	551	563	575
Intangibles	2,282	3,323	3,352	3,270	3,188
Other assets	722	960	972	972	972
Total Assets	5,096	6,752	6,905	6,952	7,577
Payables	159	151	184	217	231
Provisions	10	91	88	88	88
Short term debt & Long term debt	918	1,580	1,253	498	244
Other Liabilities	649	800	730	730	730
Total Liabilities	1,735	2,622 4,130	2,255 4,649	1,533	1,293
Total Equity	3,361	4,130	4,049	5,419	6,285
Qmethod <sup>™</sup> - Bus Performance*					
Return on Capital Employed	19.2%	17.9%	17.1%	18.3%	19.4%
Return on Equity	27.2%	25.6%	24.5%	23.5%	22.5%
Operating Margin	28.0%	26.8%	28.1%	28.8%	29.7%
EBITDA Margin	32.4%	30.5%	32.0%	32.4%	33.1%
Qmethod <sup>™</sup> - Quality of Earnings*					
Cash Realization Ratio	0.4x	0.7x	1.0x	1.1x	1.2x
Dividend Payout Ratio	29.0%	28.3%	28.0%	28.2%	28.4%
Tax Rate (Reported)	20.3%	17.2%	20.3%	19.8%	19.8%
Net Debt-to-Equity Ratio	19.2%	32.7%	21.6%	3.7%	-15.0%
Interest Cover	44.8x	23.9x	21.8x	37.1x	56.1x
IIICICSI COVCI					
Key Metrics Franking	0%	0%	0%	0%	0%

# **Company Sector**

Medical Technology

# **Company Description**

ResMed (RMD) is a leading developer and manufacturer of medical devices, masks and cloud-based software applications that diagnose, treat, and manage respiratory disorders. Headquartered in San Diego, California, RMD is focussed on connected health to deliver better outcomes for sleep apnea and chronic obstructive pulmonary disease sufferers.

#### **Investment Rationale**

We rate RMD as a Buy. Improved input supply and production ramp up will assist RMD in meeting strong CPAP demand. Peer challenges extend runway for RMD to capture market share.

#### **Stock Data**

Shares / Common - Dual Listed	0.10
Price to Book Value	5.6x

Key Changes		
(US\$)	Previous	Current
2024E EPS	0.69	0.73
2025E EPS	0.81	0.80
2026E EPS	0.91	0.90

# 2Q24 Preview

### BofA bullish vs the Street for 2Q24

BofAe 2Q24 more positive than Street on both rev 1,164m (cons 1,147m; 1%) and non-GAAP NPAT 273m (265m; 3%).

# Exhibit 1: 2Q24E BofA vs Cons

BofA ahead of Cons in 2Q24 estimates

USD		2Q23A		2Q24E			FY24E	
·		Actual	BofAe	Consensus	Diff %	BofAe	Consensus	Diff %
Revenue	\$m	1,034	1,164	1,147	1.4%	4,644	4,625	0.4%
Gross profit	\$m	587	654	642	1.9%	2,623	2,588	1.3%
EBIT	\$m	305	353	344	2.7%	1,399	1,404	-0.3%
NPAT	\$m	244	273	265	2.8%	1,074	1,069	0.4%
		Actual	BofAe	Consensus	Diff ppt	BofAe	Consensus	Diff ppt
Gross margin	%	57%	56.2%	55.9%	0.26	56.5%	56.0%	0.51
EBIT margin	%	30%	30.4%	30.0%	0.39	30.1%	30.3%	(0.21)
Net margin	%	24%	23.4%	23.1%	0.31	23.1%	23.1%	0.01
Per share metrics		Actual	BofAe	Consensus	Diff %	BofAe	Consensus	Diff %
EPS	\$/shr	1.66	1.85	1.80	2.8%	7.28	7.22	0.9%
DPS	\$/shr	0.47	0.50	0.48	3.4%	2.04	1.96	4.2%

Source: BofA Global Research, Visible Alpha

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#### What to look out for:

- ROW AS11 production and launches; and market given Philips sales resumption
- GLP-1 risk, including what RMD is seeing with patients they are tracking
- Gross margin trends including renegotiation of supply contracts signed during pandemic shortages
- Resupply trends

**BofA expectation on FY24 guidance/outlook:** RMD tends to not provide guidance. Expect US device sales to continue trending upwards in FY24 until Consent Decree. Strong OUS device sales to moderate in subsequent quarters as RMD backlog in inventory channels run down and Philips device supply lifts. GM to continue improving in FY24 with supply contracts renegotiated, inefficiencies alleviating and mix normalising, inline with RMD comments at 1Q24 result.

**Potential catalysts:** (1) PHIA Consent Decree outcome pending; (2) Surmount-OSA Study (expected Mar24); (3) Ongoing ROW AS11 launches.

# **BofA 2Q24 Expectations**

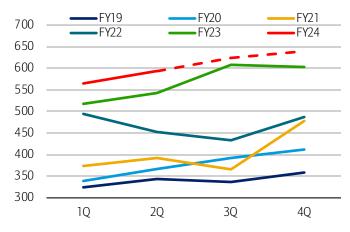
**Devices:** BofAe 2Q24 devices rev \$590m (+4% seq; +9% pcp). We expect solid growth from both US (\$363m; +5% seq) and ROW (\$227m; +10%cc) given (1) widespread US AS11 availability; (2) AS11 sales into ROW markets; (3) Continued ROW recall tailwinds. We do flag that Philips has resumed sales in ROW markets, but expect channels backlogged with RMD inventory.

**Masks:** BofAe 2Q24 masks rev \$434m (+9% seq; +16 pcp). Strong quarterly revenue expected given US customers purchases ahead of deductable reset. RMD is expected to continue to focus on resupply initiatives. Strong flow of new patient starts and a stronger EUR/USD (+5% pcp) to provide tailwinds. Nov23 mask magnet concerns not expected to impact mask sales.

**SaaS:** BofAe 2Q24 SaaS rev \$140m (+.6% seq; +20% pcp). We expect 2Q24 to have HSD growth given US SaaS operations. 2Q24 is the last quarter before cycling out Medifox Dan acquisition.

Exhibit 2: We expect +4% device revenue growth in 2Q24

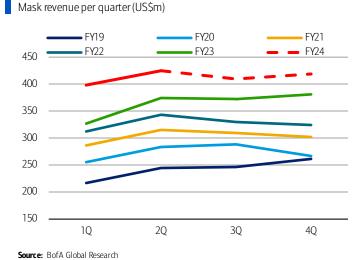
Device revenue per quarter (US\$m)



Source: BofA Global Research

BofA GLOBAL RESEARCH

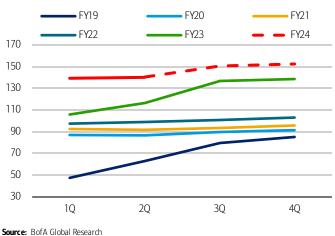
# Exhibit 3: BofA expects strong 2Q24 mask revenue



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# Exhibit 4: SaaS rev to remain flat into 2Q24

SaaS revenue per quarter (US\$m)



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# **Changes to BofA estimates**

# Exhibit 5: We lower FY25/26 rev & NPAT

Changes to BofA estimates

			FY24E		ı	FY25E		FY26E
USD		New	Old	Chg %	New	Old Chg%	New	Old Chg%
Revenue	\$mn	4,644	4,622	0.5%	4,897	4,909 -0.2%	5,283	5,295 -0.2%
Gross profit - non-GAAP	\$mn	2,623	2,595	1.1%	2,816	2,823 -0.2%	3,064	3,071 -0.2%
Operating profit - non-GAAP	\$mn	1,399	1,380	1.4%	1,495	1,502 -0.5%	1,656	1,663 -0.4%
NPAT - non-GAAP	\$mn	1,074	1,058	1.5%	1,181	1,232 -4.2%	1,317	1,391 -5.3%
Non-GAAP metrics		New	Old	Chg %	New	Old Chg%	New	Old Chg%
Gross margin	%	56.5%	56.1%	0.3%	57.5%	57.5% 0.0%	58.0%	58.0% 0.0%
Operating margin	%	30.1%	29.9%	0.3%	30.5%	30.6% -0.1%	31.3%	31.4% -0.1%
Net margin	%	23.1%	22.9%	0.2%	24.1%	25.1% -1.0%	24.9%	26.3% -1.3%
Per share metrics (Non								
GAAP)		New	Old	Chg %	New	Old Chg%	New	Old Chg%
EPS - non-GAAP	cps	7.28	6.93	5.1%	8.04	8.09 -0.7%	8.97	9.14 -1.9%
DPS	cps	2.04	1.94	5.3%	2.26	2.29 -1.0%	2.54	2.60 -2.2%

Source: BofA Global Research, Visible Alpha

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# **Valuation**

Our PO of \$220/shr is DCF-derived. RMD is now trading at 17x, below the historical average of 34x. We believe the market has oversold RMD on GLP-1 concerns. In our view, this presents a particularly attractive buying opportunity.

# **Exhibit 6: RMD is trading below -1SD of historical average** RMD 1yr fwd P/E chart



Source: Bloomberg

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# Price objective basis & risk

#### ResMed Inc. (RMD / RSMDF)

Our price objective on RMD is US\$220 per share / A\$33 (ADR) and is based on DCF valuation. Our five year DCF uses a 8% WACC, and a 4% terminal growth rate. We apply 66c AUD/USD to derive ADR price.

Upside risks are (i) further delays with peer recall, (ii) continued resupply strength, (iii) higher organic growth in SaaS business, (iv) supply constraints alleviate more quickly than anticipated.

Downside risks are (i) Philips returns to new start market with heavy discounting, (ii) loss of momentum in the SaaS business (iii) marketing and education efforts do not achieve expected revenue growth (iv) reimbursement changes by health ministries or Private Health Insurance (v) poor reception of new product launches (vi) technological advancement in competitor's products (vii) FX headwind

# Analyst Certification

I, Lyanne Harrison, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

APR - Healthcare Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Adicon Holdings	XADKF	9860 HK	David Li
	Aier Eye Hospital	XAEOF	300015 CH	David Li
	Amvis Holdings	XEPSF	7071 JP	Ritsuo Watanabe
	Angelalign Technology Inc	AGLFF	6699 HK	David Li
	APM Human Services	XBZXF	APM AU	Lyanne Harrison
	Apollo Hospital	XWQAF	APHS IN	Neha Manpuria
	Asahi Intecc	AHICF	7747 JP	Ritsuo Watanabe
	Aurobindo	XLZFF	ARBP IN	Neha Manpuria
	Australian Clinical Labs	XAUKF	ACL AU	Lyanne Harrison
	Autobio Diagnostics Co Ltd	XQDXF	603658 CH	Sandra Sun
	AVITA	AVHHL	AVH AU	Lyanne Harrison
	AVITA	RCEL	RCEL US	Lyanne Harrison
	Baiyunshan	GZPHF	874 HK	Sandra Sun
	Bangkok Chain Hospital	BKKFF	BCH TB	Charti Phrawphraikul
	Bangkok Dusit Medical Services	BDUFF	BDMS TB	Charti Phrawphraikul
	Beijing Tongrentang Co., Limited	BJTGF	600085 CH	David Li
	Biocon	XLOFF	BIOS IN	Neha Manpuria
	Bumrungrad Hospital	BUHHF	BHTB	Charti Phrawphraikul
	Cansino Bio	CASBF	6185 HK	David Li
	Chugai Pharm.	CHGCF	4519 JP	Koichi Mamegano
	Chularat Hospital Group	XOCOF	CHG TB	Charti Phrawphraikul
	CSL Limited	CMXHF	CSL AU	Lyanne Harrison
	Daiichi Sankyo	DSKYF	4568 JP	Koichi Mamegano
	Daiichi Sankyo	DSNKY	DSNKY US	Koichi Mamegano
	Dr. Reddy's	DRYBF	DRRD IN	Neha Manpuria
	Dr. Reddy's	RDY	RDY US	Neha Manpuria
	EBOS Group Limited	EBOSF	EBO NZ	Lyanne Harrison
	EBOS Group Limited	XEBOF	EBO AU	Lyanne Harrison
	Eisai	ESALF	4523 JP	Koichi Mamegano
	Everest Medicine	XMLKF	1952 HK	David Li
	Fisher & Paykel Healthcare	XPAXF	FPH AU	Lyanne Harrison
	Fisher & Paykel Healthcare	FSPKF	FPH NZ	Lyanne Harrison
	Fortis Health	XFFTF	FORH IN	Neha Manpuria
	Frontage	FGHQF	1521 HK	David Li
	Gland Pharma	XGLPF	GLAND IN	Neha Manpuria



# APR - Healthcare Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Glenmark Life Sciences	XWDPF	GLS IN	Neha Manpuria
	Gushengtang	GSHTF	2273 HK	David Li
	Huadong Medicine	XCPDF	000963 CH	Ethan Cui
	Hualan Biological	XCBEF	002007 CH	Ethan Cui
	Hygeia Healthcare	HYHHF	6078 HK	Ethan Cui
	IHH Healthcare Berhad	IHHHF	IHH MK	Paul Dewberry
	IHH Healthcare Bhd	XFAHF	IHH SP	Paul Dewberry
	lmeik	ZMITF	300896 CH	Ethan Cui
	Innovent	IVBXF	1801 HK	David Li
	Integral Diagnostics	ITGDF	IDX AU	Lyanne Harrison
	Jinxin Fertility	JXFGF	1951 HK	Ethan Cui
	Jinyu Bio-Tech	XMTDF	600201 CH	David Li
	Kangji Medical	KMHLF	9997 HK	David Li
	Medley	XEQNF	4480 JP	Ritsuo Watanabe
	MicroPort	MCRPF	853 HK	Sandra Sun
	Mindray	XDVVF	300760 CH	Sandra Sun
	Nanosonics Limited	NNCSF	NAN AU	Lyanne Harrison
	Olympus Corp.	OCPNF	7733 JP	Ritsuo Watanabe
	Ovctek	XOCKF	300595 CH	David Li
	Pharmaron	PHBBF	3759 HK	David Li
	Polynovo	CALZF	PNV AU	Lyanne Harrison
	Praram 9 Hospital	XPNHF	PR9 TB	Charti Phrawphraikul
	ResMed Inc	RSMDF	RMD AU	Lyanne Harrison
	ResMed Inc.	RMD	RMD US	Lyanne Harrison
	Sawai Group Holdings	SWGHF	4887 JP	Ritsuo Watanabe
	Shanghai Pharmaceuticals	SHPMF	2607 HK	David Li
	Shanghai United Imaging	XCAOF	688271 CH	Sandra Sun
	Shionogi	SGIOF SGIOY	4507 JP SGIOY US	Koichi Mamegano
	Shionogi Sino Biopharm	SBMFF	1177 HK	Koichi Mamegano David Li
	Sino Biopharm	SHTDF	1099 HK	David Li
	Sinopharm SMS	SMSZF	2175 JP	Ritsuo Watanabe
	Sonic Healthcare Limited	SKHCF	SHL AU	Lyanne Harrison
	Sosei	SOLTF	4565 JP	Koichi Mamegano
	Takeda Pharm.	TKPHF	4502 JP	Koichi Mamegano
	Takeda Pharm.	TAK	TAK US	Koichi Mamegano
	Terumo	TRUMF	4543 JP	Ritsuo Watanabe
	TigerMed	HTMDF	3347 HK	David Li
	TRYT	XHXTF	9164 JP	Ritsuo Watanabe
	Wuxi Apptec	WUXIF	2359 HK	David Li
	Wuxi Apptec	XLUHF	603259 CH	David Li
	Yifeng Pharmacy	XYHCF	603939 CH	Ethan Cui
	Yunnan Baiyao	YBAIF	000538 CH	Sandra Sun
	Zai Lab	ZLAB	ZLAB US	David Li
	Zai Lab	XCDZF	9688 HK	David Li
	Zhifei	XCHOF	300122 CH	David Li
NEUTRAL				
112011012	Ansell Limited	ANSLF	ANN AU	Lyanne Harrison
	Astellas Pharma	ALPMF	4503 JP	Koichi Mamegano
	Astellas Pharma	ALPMY	ALPMY US	Koichi Mamegano
	Beigene	XBETF	6160 HK	David Li
	Beigene	BGNE	BGNE US	David Li
	Healius Limited	PHCRF	HLSAU	Lyanne Harrison
	JMDC	JMDCF	4483 JP	Ritsuo Watanabe
	Joinn Lab	XQTSF	6127 HK	David Li
	Kyowa Kirin	KYKOF	4151 JP	Koichi Mamegano
	Max Healthcare	XMHLF	MAXHEALT IN	Neha Manpuria
	PHC Holdings	PHCCF	6523 JP	Ritsuo Watanabe
	Pien Tze Huang	XUVHF	600436 CH	Sandra Sun
	Ramsay Health Care Limited	RMSYF	RHC AU	Lyanne Harrison
	Sigma Healthcare Limited	SIGGF	SIG AU	Lyanne Harrison
	Sun Pharma	XPUCF	SUNP IN	Neha Manpuria
	Topchoice Medical	XZDXF	600763 CH	Ethan Cui
	Torrent Pharma	TOPHF	TRP IN	Neha Manpuria
	WuXi Biologics	WXIBF	2269 HK	David Li



### APR - Healthcare Coverage Cluster

Investment rating	Company	Bof A Ticker	Bloomberg symbol	Analyst
	Zydus Lifesciences	XMQLF	ZYDUSLIF IN	Neha Manpuria
UNDERPERFORM				
	Ain Holdings	AINPF	9627 JP	Ritsuo Watanabe
	Alkem	XAMLF	ALKEM IN	Neha Manpuria
	Asymchem Laboratories	XALPF	002821 CH	David Li
	Baiyunshan	XOUFF	600332 CH	Sandra Sun
	Beijing Wantai Biological Pharmacy	XBHIF	603392 CH	David Li
	Cipla	XCLAF	CIPLA IN	Neha Manpuria
	Cochlear Limited	CHEOF	COHAU	Lyanne Harrison
	CSPC Pharmaceutical	CHJTF	1093 HK	Ethan Cui
	Divis Laboratories	XXQPF	DIVI IN	Neha Manpuria
	Hansoh	HNSPF	3692 HK	David Li
	Hengrui Medicine	XMOKF	600276 CH	David Li
	Joinn Lab	JOLCF	603127 CH	David Li
	Lupin	XEFSF	LPC IN	Neha Manpuria
	M3	MTHRF	2413 JP	Ritsuo Watanabe
	Mankind Pharma	XDXZF	MANKIND IN	Neha Manpuria
	Medipal Holdings	MEPDF	7459 JP	Ritsuo Watanabe
	Ono Pharm.	OPHLF	4528 JP	Koichi Mamegano
	Otsuka HD	OTSKF	4578 JP	Koichi Mamegano
	Otsuka HD	OTSKY	OTSKY US	Koichi Mamegano
	Pharmaron	XLYGF	300759 CH	David Li
	Shanghai Pharmaceuticals	XKCRF	601607 CH	David Li
	Sysmex	SSMXF	6869 JP	Ritsuo Watanabe
	TigerMed	XHTHF	300347 CH	David Li

# **Q**method <sup>™</sup> Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) $\times$ (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
		Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings	Numerator	Denominator
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt - Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit	Numerator	Denominator
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap = Current Share Price × Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price × Current Shares + Minority Equity + Net Debt +	Sales
•	Other LT Liabilities	

EV / EBITDA Enterprise Value Basic EBIT + Depreciation + Amortization Manthod Mis the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

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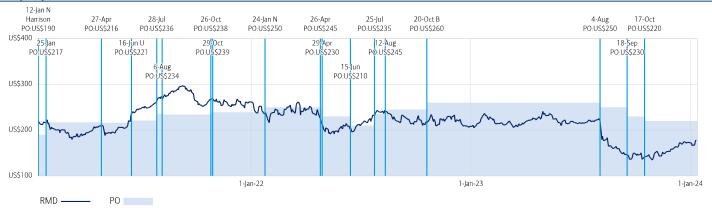
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# **Important Disclosures**

#### ResMed (RMD) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### ResMed (RSMDF) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

#### Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships R1	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

#### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships R1	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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# Investment rating Total return expectation (within 12-month period of date of initial rating) Ratings dispersion guidelines for coverage cluster<sup>R2</sup>

Buy ≥ 10% ≤ 70% Neutral ≥ 0% ≤ 30% Underperform N/A ≥ 20%

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