

# Question and Answer

## Operator

[Operator Instructions] Your first question comes from the line of Tristan Joll from UBS.

## Tristan Joll

*UBS Investment Bank, Research Division*

Just if I could just kick off with the distribution changes. Did I -- I think I heard you right in saying that there was -- or Paul right in saying that there was \$10 million to \$15 million of cost. Can I just confirm that that's NZ dollar cost? And then just as a follow-on to what you said, Mike, you mentioned RAC should rebound to mid-teen growth in the second half. Can you give us a sense of what think it will be in the first?

## Michael Grenfell Daniell

*Non-Executive Director*

Yes, we think in first half that RAC growth will be about half the normal level. You'll see in our disclosures, every year, we list our largest customer. So you can see the revenue that we put -- have historically put by CareFusion. Take a couple of months out and you can see that it will roughly halve revenue growth for respiratory in the first half as a result. And that was New Zealand dollars, Tristan.

## Tristan Joll

*UBS Investment Bank, Research Division*

Okay. Great. And then just had a question on flow gen growth in the second half. I guess quick back-of-the-envelope numbers we've done looking at masks and your total OSA growth suggests that might have been flattish or low single digit. Can you make a comment on that? And then I guess segueing on to Lewis' comments what you're thinking around product development cycle for flow gens?

## Michael Grenfell Daniell

*Non-Executive Director*

Yes, well, flow generator growth for the year was flat year-on-year for total flow generators, and obviously declined a few points in the second half.

## Tristan Joll

*UBS Investment Bank, Research Division*

Okay. And then so Lewis mentioned flow gens in his lineup of product development stuff. Have you got anything you want to share around that? I mean, clearly, ResMed's out. Respirationics expected to be out probably later this year. What should we expect on that front?

## Michael Grenfell Daniell

*Non-Executive Director*

Well, we said we've got a new platform coming. We're not ready to be talking about timing on that. We do have more than one kind of flow generator nowadays and we have just announced the -- in the last couple of weeks, the rollout of our latest AIRVO system. So we're pretty excited about that. But on the specific OSA side, absolutely, we have a new platform coming, but we're not ready to talk about timing on that yet.

## Tristan Joll

*UBS Investment Bank, Research Division*

Okay. And then just finally, sorry, Tony, I missed the CapEx, so \$70 million. Do you mind -- I apologize, but do you mind just sort of clarifying why that's -- what's inside that number?

## Antony G. Barclay

So it's the normal stuff in terms of capacity growth it's an element of the new ERP project that we have talked about historically. And it's also building up a base of humidifiers for the probable committed use program that we're running in the U.S. as part of the change.

**Michael Grenfell Daniell**

*Non-Executive Director*

And new product tooling, of course.

**Tristan Joll**

*UBS Investment Bank, Research Division*

Okay. So there's no material CapEx or such around the distribution stuff?

**Michael Grenfell Daniell**

*Non-Executive Director*

Well, that committed use program that Tony refers to is traditionally in the U.S. a proportion of humidifiers placed, are placed it seems to be free of charge or low cost in return for committed use, and we'll be establishing our own committed use programs there to continue that.

**Operator**

Your next question comes from the line of Dan Frost from Macquarie.

**Daniel Frost**

*Macquarie Research*

Just a couple of questions. The first is just on the distribution changes. Is it possible for you to give us some sort of idea of the gross margin impact on those sales?

**Michael Grenfell Daniell**

*Non-Executive Director*

Yes. So, Dan, we're in the process of working with a whole range of customers in the U.S., so we prefer not to be getting into any detail at this stage. But clearly, there is an improvement in gross margin dollars because we'll be selling at hospital pricing.

**Daniel Frost**

*Macquarie Research*

So would we expect the impact in the second half to be relatively neutral when we take into account the increase in SG&A, but getting canceled out by gross margin improvement?

**Michael Grenfell Daniell**

*Non-Executive Director*

Yes, that's a reasonable assumption as we get up to speed.

**Daniel Frost**

*Macquarie Research*

Great. And the other question is just on amortization. A bit of pointy question, but increase in intangibles on the balance sheet are quite significantly, and because it's sort of slightly different in nature it'd be useful for you to give some sort of guidance as to what you expect amortization for '16?

**Michael Grenfell Daniell**

*Non-Executive Director*

Sure. I mean, we don't -- I don't have that figure in front of me, but it won't be material at all, Dan, at this point. Most of that increase in amortization is still sitting in work in progress. So it'll be more a second half or next year story once the ERP project is up and running.

**Daniel Frost**

*Macquarie Research*

And just sort of roughly, the ERP system, how long would you write that off over? Is that sort of a 5-year life or is that a 10-year life or is it longer?

**Michael Grenfell Daniell**

*Non-Executive Director*

It's likely to be more than 10 years, something we will be discussing with our auditors once we get to the point of bringing it onto the register.

**Operator**

Your next question comes from the line of Chelsea Leadbetter from Forsyth Barr.

**Chelsea Arna Leadbetter**

*Forsyth Barr Group Ltd., Research Division*

First question for me, just looking at that mask growth and the very strong sort of 22% growth that you did report, I wonder if you could just give us a bit of an idea on the competitive reaction you've seen in the space and what we are seeing with respect to some of ResMed's new products and Respirationics?

**Paul N. Shearer**

*Senior Vice President of Sales & Marketing*

Chelsea, Paul here. Obviously, masks are going very, very well, particularly in the States. They're being very well received by customers. I can't comment too much what the other companies are doing, but we have obviously gained market share. And so it's going very, very well.

**Chelsea Arna Leadbetter**

*Forsyth Barr Group Ltd., Research Division*

Can you give us any idea on what sort of market share you feel that you may be sitting in?

**Michael Grenfell Daniell**

*Non-Executive Director*

Yes, we've been in the low -- in the kind of low double digit for a while, and we think we're moving up into the mid-teens kind of range of market share. It's very, very hard to quantify because there isn't complete data disclosed any longer. There's only a minority of participants in the market disclosing. But our best estimate would be hitting into the mid-teens market share.

**Chelsea Arna Leadbetter**

*Forsyth Barr Group Ltd., Research Division*

Okay. Great. And just one sort of question on the new applications in RAC. Could you give us a bit of an idea on what the key drivers have been behind that level of growth? Is that still largely oxygen therapy?

**Michael Grenfell Daniell**

*Non-Executive Director*

Yes. It's -- all of them are growing well. Oxygen therapy is growing very well. It's becoming an increasingly -- increasing proportion of that. And as Lewis outlined, we're getting -- we're just getting an ongoing flow of clinical data supporting the benefits.

**Operator**

Your next question comes from the line of Ian Abbott from Goldman Sachs.

**Ian Abbott**

*Goldman Sachs Group Inc., Research Division*

My first question was just around the Mexican production. Just wondering what sort of proportion of production comes from Mexico now.

**Michael Grenfell Daniell**

*Non-Executive Director*

That will be towards around about 30% of our consumer output at present.

**Ian Abbott**

*Goldman Sachs Group Inc., Research Division*

And what was it last year?

**Michael Grenfell Daniell**

*Non-Executive Director*

A little bit lower than that, about 20%.

**Ian Abbott**

*Goldman Sachs Group Inc., Research Division*

Okay. And where would you expect that to get to over the next, say, 3 or 4 years?

**Michael Grenfell Daniell**

*Non-Executive Director*

So our goal is to head towards 50% of our consumer output out of Mexico potentially over the next 3 to 4 years' time span.

**Ian Abbott**

*Goldman Sachs Group Inc., Research Division*

Okay. And can I perhaps just pick up the earlier question on masks. You mentioned your share you think is around mid-teens. Is it possible to -- I mean, if you look at your share, is it possible to just sort of get an idea of what you think your share of new patients is versus your share of your -- of the back book of the installed base?

**Michael Grenfell Daniell**

*Non-Executive Director*

Again, very hard to quantify. But numerically, of course, if you're growing at the rates we are reporting, we would expect to have higher share of new patients than our overall market share. I mean, that's required to generate that growth.

**Ian Abbott**

*Goldman Sachs Group Inc., Research Division*

Sure, sure. Okay, great. And on the -- I mean, just reading this further distributed change or for bringing the distribution in the U.S. in-house, I mean that's a very significant change. I suppose it affects a fairly significant portion of your business. Just wondering what sort of guide you can give us as you've done that in other markets and what sort of reassurance you can give the market that, that will go smoothly.

**Michael Grenfell Daniell**

*Non-Executive Director*

Well, we've done this in about 25 countries. And some of them quite major, major countries in Europe, in Japan. And as we've said today, we are working together with Becton, Dickerson and CareFusion to ensure a smooth transition for customers. I mean, both companies share the same customers and we're keen to make it work for everyone.

**Ian Abbott**

*Goldman Sachs Group Inc., Research Division*

And in terms of the sort of real benefits of doing that, Mike, I mean, what do you see is -- is it capturing the distributor margin or is it getting better access to hospitals? What do you see is the -- as the reward for doing that balanced against the risks?

**Paul N. Shearer**

*Senior Vice President of Sales & Marketing*

Ian, it's Paul here. I will answer that question. Probably the real benefit is, is that you get control of the sales process. So that's very important. And then we'll be able to put a team of very focused salespeople into the market. And so that we've got a team of people selling our products only. And generally, our experience is, with control of the sales force, with the focus you take to market, and with all the education we do, we get an acceleration of revenue growth.

**Ian Abbott**

*Goldman Sachs Group Inc., Research Division*

Okay. All right. Can I perhaps just ask around the pricing in masks, what are you seeing there? OSA masks?

**Michael Grenfell Daniell**

*Non-Executive Director*

As we said, we've seeing modest declines has been the history for a decade or more, and we're offsetting those declines with mix. So in fact, the average price we receive for a mask is really much the same as it was a year ago.

**Operator**

Your next question comes from the line of Stephen Ridgewell from Craigs Investment Partners.

**Stephen Ridgewell**

*Craigs Investment Partners Limited, Research Division*

First of all in OSA, a very strong growth obviously in the mask in the second half, 23%. Was that -- can you provide a bit of color on what product line was driving it? Was it was mainly the Simplus? Or was Eson and some of the other masks making a contribution to it as well?

**Michael Grenfell Daniell**

*Non-Executive Director*

Stephen, it was primarily Simplus and Eson. So new masks have been driving the growth.

**Stephen Ridgewell**

*Craigs Investment Partners Limited, Research Division*

Right. And so fairly even between Eson and the Simplus?

**Michael Grenfell Daniell**

*Non-Executive Director*

We've had very strong growth in Simplus and we've had very strong growth in Eson, but probably stronger growth in Simplus.

**Stephen Ridgewell**

*Craigs Investment Partners Limited, Research Division*

Great, great. And do you see any change in the momentum of, I would say, business in the March quarter versus December quarter, just given that you are lapping the launch of Simplus in the PCP in that March quarter?

**Michael Grenfell Daniell**

*Non-Executive Director*

We had good growth in both quarters. And yes, so no significant change.

**Stephen Ridgewell**

*Craigs Investment Partners Limited, Research Division*

Right. And do you think there's been a bit of a pickup in market growth in the last -- so 6 to 12 months, which has helped? Or do you think it's primarily market share?

**Michael Grenfell Daniell**

*Non-Executive Director*

Well, with only partial disclosure as we mentioned earlier of what the other participants are doing. But looking at our disclosures and the others that have been made, you get that feeling that market growth may be moving up a little. But it's hard to confirm that because we don't have all the numbers.

**Stephen Ridgewell**

*Craigs Investment Partners Limited, Research Division*

Okay. And then just on respiratory, the move to direct distribution, why is it the decision to go now and not in previous years? What's prompted that change?

**Paul N. Shearer**

*Senior Vice President of Sales & Marketing*

Well, Stephen, I think that CareFusion has done a very good job in years gone by, and so you just -- and it's worked very well for both companies, so that's why we have been doing this for a number of years. Probably what has changed is that with the acquisition of CareFusion by Becton, Dickinson, that we're not quite sure what Becton and Dickinson's interest is in the respiratory business. We have gone direct in all the major markets around the world and we felt it was time to do it in the U.S. and so we have made the decision to do it. As I said before, we think there's some good advantages for doing so, so this is decision, we have taken.

**Stephen Ridgewell**

*Craigs Investment Partners Limited, Research Division*

Great. And how are you managing that transition from the CareFusion sales force to your own in order to, if you like, avoid any disruption to demand from -- in demand from hospitals? I mean, you mentioned that inventory would be run down, but have you seen any disruption to -- in demand from the hospitals at this point?

**Paul N. Shearer**

*Senior Vice President of Sales & Marketing*

So basically, we go -- the transition will occur in July 20. So it's putting all the things in place. We've had -- we've got quite a number of salespeople in the market already, we've had for many years. So we have the -- a lot of customer contact. This is a transition we're doing with BD, so obviously, it will go as smoothly as we can make it. We have spend [ph] at our warehouse, we have stock in place. We're expecting the transition to go smoothly.

**Stephen Ridgewell**

*Craigs Investment Partners Limited, Research Division*

And do you expect the total sales force for respiratory in the U.S., once this transition is completed, to be larger than when CareFusion and yourselves were joint distributing?

**Paul N. Shearer**

*Senior Vice President of Sales & Marketing*

Yes, it will be similar to CareFusion's current sales force.

**Stephen Ridgewell**

*Craigs Investment Partners Limited, Research Division*

All right. Okay. And at this point, any CareFusion employees joining Fisher & Paykel?

**Paul N. Shearer**

*Senior Vice President of Sales & Marketing*

I will not comment on that.

**Stephen Ridgewell**

*Craigs Investment Partners Limited, Research Division*

Okay. And in terms of the financial impact, you quantified that this \$10 million to \$15 million of cost from going direct this year, are you expecting to see a net positive impact to earnings per share from going direct?

**Paul N. Shearer**

*Senior Vice President of Sales & Marketing*

No. We -- and I think someone asked the question earlier. We are looking at fairly neutral this year, but for the benefits to begin to become apparent in the following year.

**Operator**

Your next question comes from the line of Sarndra Ulrich from First NZ Capital.

**Sarndra Ulrich**

*Jarden Limited, Research Division*

I'm just going to ask just a few detailed questions just to make sure I understand 1H versus 2H. But just in terms of flow generators for OSA, and I probably could anticipate the answer. But I mean I guess the basic question, why even bother with flow generators? Why don't you just focus all your R&D and energy on masks, given the yield -- the respective yields and the effort that goes into selling those?

**Michael Grenfell Daniell**

*Non-Executive Director*

Sarndra, we see quite a few opportunities for our flow generator technologies. So no, we're very committed in that area.

**Sarndra Ulrich**

*Jarden Limited, Research Division*

And I'm just -- I guess my question is particularly around the OSA. So you just think that even in the OSA space you need to have a presence there rather than just focusing on the masks?

**Michael Grenfell Daniell**

*Non-Executive Director*

Yes, yes. And we see opportunities and we see synergy between the 2.

**Sarndra Ulrich**

*Jarden Limited, Research Division*

Yes, okay. Just a second question. In terms of the -- and this is just in terms of detailed stuff, just so I understand. If you're looking at 7% growth, let's just say 7% growth, half of what you see, let's just say 7% growth RAC in 1H '16, does that imply that if you are looking for 14% growth across the year, that you're looking for 20% growth in 2H '15? Or are you saying, look, 7% were abnormal -- there's anomaly in 1H but 14% in the second half or 7% in the first half and 20% or thereabouts in the second half to get to the 14%?

**Michael Grenfell Daniell**

*Non-Executive Director*

That's probably a bit too much precision than we're able to provide at present. But I think we said earlier that moving back into the mid-teens, I guess the question of how far that is into the mid-teens I guess we'll have a better idea later in the year. But certainly expect a pretty substantial increase in the second half versus the first half.

**Sarndra Ulrich**

*Jarden Limited, Research Division*

Yes. Okay. And again, masks, if you're looking -- let's just say for argument's sake, and I know I'm being a bit detailed here, but if we're looking at 14% OSA growth in FY '16, does that imply that we're still assuming mask growth at around a 23% across that year, is that your assumption? Assuming that flow generators are flattish?

**Michael Grenfell Daniell**

*Non-Executive Director*

Yes, again, I don't know that we're in a position to give explicit guidance on mask growth, but we are expecting ongoing good mask growth.

**Sarndra Ulrich**

*Jarden Limited, Research Division*

Okay. So just -- and just coming back to -- just so I understand the first half versus the second half, so again, apologies for the detail. In terms of the SG&A cost perhaps more as a percentage of revenues, I don't know if that's your question, Paul, but just saying the additional SG&A cost in this year. I mean, I'm sure you guys have that in your budget, but can you give me what you would expect that to be as a percentage of revenues? I know it's around \$27 million this year -- sorry, 27% this year?

**Michael Grenfell Daniell**

*Non-Executive Director*

Yes, unfortunately, we don't have that number in front of us, Sarndra, but it is a must move up. Because we are saying that because of the investment we're making there on the expanded sales force for the SG&A growth. Unlike the last few years where we have expected some leverage will be the other way around this year. So it will grow a few percentage points faster than revenue overall. So I just haven't done the math somewhat [indiscernible].

**Sarndra Ulrich**

*Jarden Limited, Research Division*

That's all right, that's all right. And my final question just comes back to the \$125 million to \$130 million, what's the difference? I ask this every year and you give me the same answer, but I'm going to ask again. What drives the \$130 million and what drives the \$125 million?

**Michael Grenfell Daniell**

*Non-Executive Director*

I think to drive that, our actual revenue, our actual gross margin, actual expense growth -- you've got 3 really large moving parts there.

**Sarndra Ulrich**

*Jarden Limited, Research Division*

Yes, yes, and I guess -- which leads to my next question is and to -- again, coming back to the first half earnings growth versus the second half earnings growth, I'm sure I can do that myself, so I'll just leave it in terms of that. But would it be -- I guess my question would be, would we be looking for that full earnings growth in the first half to be -- no, I'm going to wait and do that myself because I know what the answer will be.

**Michael Grenfell Daniell**

*Non-Executive Director*



Sandra, we have said modest in the first half because we've got those 2 effects, we're stepping up expenses to support the change in the U.S. and we'll lose up to a couple of months of revenue in the U.S. respiratory market as we go through the change due to primarily inventory effects.

**Operator**

Your next question is a follow-up question from the line of Tristan Joll from UBS.

**Marcus Curley**

*UBS Investment Bank, Research Division*

It's unfortunately Marcus Curley. Can I ask a couple of questions, please?

**Michael Grenfell Daniell**

*Non-Executive Director*

That is unfortunate, Marcus. But, yes, please go ahead.

**Marcus Curley**

*UBS Investment Bank, Research Division*

Just one on the distribution arrangements. Do you know whether BD group is exiting from distribution of respiratory products in the U.S.?

**Michael Grenfell Daniell**

*Non-Executive Director*

No, we don't. We've seen some commentary in the press, but no, we don't know what their plans are.

**Marcus Curley**

*UBS Investment Bank, Research Division*

So you don't have comfort that they're not necessarily going to switch over to the competitor in the U.S. for their respiratory products?

**Michael Grenfell Daniell**

*Non-Executive Director*

Well, they have one big competitor in respiratory in the U.S. and we presume they are competing with them and are continuing to.

**Marcus Curley**

*UBS Investment Bank, Research Division*

No, what I was referring to is you've got no comfort that they won't go to Teleflex and look to source and distribute their respiratory products instead of yours now that you're exiting?

**Michael Grenfell Daniell**

*Non-Executive Director*

No, never contemplated that, Marcus. That doesn't seem very likely.

**Marcus Curley**

*UBS Investment Bank, Research Division*

Okay. And then secondly on that. Obviously, through the CareFusion arrangement, there was a large number of hospital purchasing arrangements. Do you think you'll have all of those signed in time for the handover? Or do you think there's a buildup of those that come over time?

**Paul N. Shearer**

*Senior Vice President of Sales & Marketing*

Well, that's the plan, Marcus. We're working with them now and we are all in discussions, that's going well, so we're planning to have most of those agreements in place by the July 20 time frame.

**Marcus Curley**

*UBS Investment Bank, Research Division*

Okay. Secondly, could you give us any color on what AIRVO/myAIRVO sales were in the year?

**Michael Grenfell Daniell**

*Non-Executive Director*

They were great. Very good.

**Marcus Curley**

*UBS Investment Bank, Research Division*

Dollar terms?

**Michael Grenfell Daniell**

*Non-Executive Director*

No, sorry. We're not going to drill down to that.

**Marcus Curley**

*UBS Investment Bank, Research Division*

And could you give us any update in terms of where you sit with your application for a CMS reimbursement code?

**Michael Grenfell Daniell**

*Non-Executive Director*

We're building our customer base in the U.S. and we need to keep building that to have many thousands of customers. And we are getting many customers.

**Paul N. Shearer**

*Senior Vice President of Sales & Marketing*

A work in progress, Marcus.

**Marcus Curley**

*UBS Investment Bank, Research Division*

Okay. And then one for Tony. Where the currencies sit at the moment, especially the U.S. dollar, are you able to -- or are you putting in longer-term hedging coverage outside of policy elements [ph] at the moment?

**Antony G. Barclay**

We need to see a U.S., in particular, spot rate of about \$0.715. So we were briefly under that overnight. That's about the point where we could start putting some hedging into the back end of year 3 [ph]. But only the very beginnings of it. We'd need to see this -- the rate fall a bit further from here to be adding anything more substantial. But we are close though, Marcus.

**Marcus Curley**

*UBS Investment Bank, Research Division*

And would -- if it -- let's just say it came down to \$0.71. Would you take a relatively aggressive approach there? Or do you -- how do you think you would look at that?

**Antony G. Barclay**

I think that's probably too early to speculate on that yet, Marcus. We'll be taking advice, looking at it, and thinking what's the sensible thing to do. But I think the only guarantee is we would start the process, but how deeply we would go would be purely conjecture at this point.

**Marcus Curley**

*UBS Investment Bank, Research Division*

Okay. And then final question. It was asked before in terms of the drivers of new application growth. Would you be tempted in giving us any color in terms of how much the 2 main categories being noninvasive and oxygen represent of that 48%?

**Michael Grenfell Daniell**

*Non-Executive Director*

No, Marcus. We think that's enough granularity, really.

**Operator**

[Operator Instructions] Your next question comes from the line of Victor Windeyer from Citi.

**Victor Windeyer**

*Citigroup Inc, Research Division*

Look, just wondered, the \$10 million to \$15 million increase in cost, presumably that's basically staff cost, is that right?

**Michael Grenfell Daniell**

*Non-Executive Director*

Yes. We're adding to our sales teams and we're adding to the support people and we've expanded our distribution center in the U.S. So it's all 3 of those. But people is the big one.

**Victor Windeyer**

*Citigroup Inc, Research Division*

Okay. And then how many how many salespeople will you have in the U.S. then?

**Michael Grenfell Daniell**

*Non-Executive Director*

We don't disclose the exact numbers but we'll have a good-sized team.

**Victor Windeyer**

*Citigroup Inc, Research Division*

Yes. Okay. Well -- okay, so I mean, obviously \$10 million to \$15 million on people is quite a significant number. You've got to ramp that up reasonably rapidly. Is it July -- did I hear you say July is the switchover date for you?

**Michael Grenfell Daniell**

*Non-Executive Director*

Yes, that's right. Mid-July.

**Victor Windeyer**

*Citigroup Inc, Research Division*

Mid-July, okay. And just in terms of your sales, yes, I mean, were you just dissatisfied with CareFusion? Or, I mean, obviously it's worked out pretty well over time. Is there any sort of a event that catalyzed this? Or this change in the business? Or is it just you think that it's time and you wanted to give it a go now.

**Michael Grenfell Daniell**

*Non-Executive Director*

Well, Victor, as Paul mentioned earlier, we've enjoyed a very productive relationship and good relationship with CareFusion and its predecessors over several decades and thank them. But it's a big change in that CareFusion have recently been acquired by Becton, Dickinson. That created quite a bit of uncertainty in our minds as to how good a fit respiratory was for BD. And we felt it was an opportune moment to do in the U.S. what we've done on most of our other major markets.

**Victor Windeyer**

*Citigroup Inc, Research Division*

Yes, okay. And then I did miss it, there was a bit of disruption on the line for me earlier. But what's the associated CapEx that you have to put in to support this increase in the business over there?

**Antony G. Barclay**

Of that \$70 million, it's probably in the order of \$10 million to \$15 million. But again, that's a number we don't exactly have locked down. It will be -- we'll know more about that as we get into the process. But certainly, it's not massive, but it's not 0 clearly.

**Victor Windeyer**

*Citigroup Inc, Research Division*

Yes. And just with myAIRVO, the reimbursement code, I mean obviously that's the important part of getting paid in the U.S. and driving market growth, and that looks like an exciting opportunity. What -- broadly, what is the time frame that you can expect that to come to fruition? Is it in the next 6, 12 months or is it more like 2 years and out?

**Michael Grenfell Daniell**

*Non-Executive Director*

It's not that predictable. We are confident we've got very good clinical evidence and a growing base of that clinical evidence. You may recall back, I think it was October or November last year, we had some preliminary results from a study running in Europe, which showed a quite a reduction in hospital admissions using our device for patients in the home. So we believe we're getting the evidence. But you also need to build up a base of patients. We've gained [indiscernible] previously in home care, and you just need to build up quite a number of patients, and that's what we're doing. But we're happy with the progress we're making without any specific codes because there are various ways that patients can pay for it or it can be paid for.

**Victor Windeyer**

*Citigroup Inc, Research Division*

Yes, okay, okay. Just on mask growth in the U.S., I guess in OSA, do you think you'll continue to take market share over the next couple of years? I mean, obviously you've had extremely strong growth in recent times, which has been great. Do you think that can continue given what you've got in the pipeline? Or do you think just the law of large numbers makes it a bit harder on the competitors manning some sort of response?

**Michael Grenfell Daniell**

*Non-Executive Director*

Yes, obviously, it's a competitive market. We have a relatively modest market share. We don't really need to take a lot of market share to grow quite strongly. And we believe we have great products and we have many more coming, as Lewis mentioned.

**Victor Windeyer**

*Citigroup Inc, Research Division*

Do you think that the market will compete on product features going forward? I mean, obviously, price has been the important feature around competitive bidding and the fallout from that is very important, but do

you think that price is going to be a key lever going forward, or is it going to be more around features? I mean, obviously the general standard of masks across the industry has gotten a lot better over time. Do you think that the difference between the masks is still very important or price is the more important waiver [ph] now?

**Michael Grenfell Daniell**

*Non-Executive Director*

Performance of any medical device is very important. And we believe there's much can be done yet to help improve performance of everything we do, including masks.

**Operator**

There are no further questions at this time. I would now like to hand the conference back to today's presenters. Please continue.

**Michael Grenfell Daniell**

*Non-Executive Director*

Thanks, Edwin. Well, just to conclude. Really, as you can imagine now, our teams here in New Zealand and right around the world are very encouraged by the results that we have reported today and also are very excited by the opportunities we see out into the future. We're really only addressing a very small percentage of the patients that we think we can help with our medical devices and the technologies we have now and the technologies we have coming. So I'd certainly like to acknowledge the team for the great results that they have achieved and for the work they are doing to continue those results. So thank you, all, and thanks for joining us today.