

Question and Answer

Operator

[Operator Instructions] Your first question comes from Marcus Curley from Goldman Sachs.

Marcus Curley

Goldman Sachs JBWere Pty Ltd, Research Division

A couple of questions, if I can. Just first on the OSA growth rate in the fourth quarter. Could you talk a little bit about the composition? You obviously spoke about flow generator is up a circa 50% U.S. dollars terms. What was happening on the masks side, and how do you see that panning out for 2012?

Michael Grenfell Daniell

Non-Executive Director

As you know, Marcus, flow generators have historically represented about 25% of our OSA revenue because of that very strong growth in the fourth quarter. That increased I think to around 30% or so revenue. If you run the numbers, you'll see that March revenue was pretty flat, which is what we indicated in November. Clearly, we're very much looking forward to the introduction of a number of new masks as we go through the year. But it'll be later this year before we see our mask growth begin to accelerate again.

Marcus Curley

Goldman Sachs JBWere Pty Ltd, Research Division

Just on OSA, can you give us some color in terms of what constant currency revenue growth number you would be thinking about for FY '12?

Michael Grenfell Daniell

Non-Executive Director

We're thinking mid teens, maybe better. It's all depends how it plays out, but mid teens.

Marcus Curley

Goldman Sachs JBWere Pty Ltd, Research Division

And then just switching to the Respiratory side, again, strong fourth quarter. Was there any sort of I suppose one-offs in that number, or is that a good illustration of how the business will go in FY '12?

Michael Grenfell Daniell

Non-Executive Director

It's a very strong quarter. We would like to see it go that well. But I think our guidance doesn't anticipate quite such strong growth through the year. We've a certain component of our Respiratory business is not consumables, of course, about 25-or-so percent is hardware and there's still some digestion, understand the term, of the humidifier controllers that were bought ahead of time for H1N1, and some economies are being a bit tight on CapEx. So I guess we're being cautious with our guidance there. But in terms of consumables, we're expecting a continuation of good growth.

Marcus Curley

Goldman Sachs JBWere Pty Ltd, Research Division

And then just finally, within the guidance, Tony, could you give us a bit of color in terms of what the hedging gains are likely to be within those ranges?

Antony G. Barclay

Sure. At the bottom end of the range, you're looking at around NZD \$23-or-so million, which includes the NZD \$17 million from the close-outs and up at the sort of NZD \$0.80-or-so mark, you're a little bit over NZD \$40 million, again, including the NZD \$17 million.

Marcus Curley

Goldman Sachs JBWere Pty Ltd, Research Division

So it's right in assuming the bottom of the range broadly correlates with the \$0.80 spot rate and vice versa?

Antony G. Barclay

Yes.

Operator

Your next question comes from Sarndra Ulrich from First NZ Capital.

Sarndra Ulrich

Jarden Limited, Research Division

Actually Marcus asked most of my questions, so thank you for that. So just to clarify, constant currency growth for OSA and RH mid teens FY '12, would that be right?

Michael Grenfell Daniell

Non-Executive Director

Yes. Maybe a little higher on OSA but we'll have to wait to how it plays out. We're looking -- our guidance, if you run the numbers on it, which I know is complex because of exchange rates, we're in the low to mid teens range in that guidance at present.

Sarndra Ulrich

Jarden Limited, Research Division

Yes, okay. Just I'm not sure if you answered this already, in terms of Respiratory side of things, at the first half, as I understand, it grew 15% in constant currency. For the full year in total, it grew 9% in constant currency. So I guess what you're saying is the traditional business was down more than the consumer growth was up in the second half sequentially, would that be right, If I was grouping those together?

Michael Grenfell Daniell

Non-Executive Director

We're not sure that respiratory constant currency growth from the first half was 15%.

Sarndra Ulrich

Jarden Limited, Research Division

Yes, I think...

Michael Grenfell Daniell

Non-Executive Director

Just looking...

Sarndra Ulrich

Jarden Limited, Research Division

I think it was.

Michael Grenfell Daniell

Non-Executive Director

I'm just looking it up. I think I've got 11% here, yes.

Sarndra Ulrich

Jarden Limited, Research Division

Okay. So if I say Respiratory plus 11% half year in aggregate plus -- if I'm reading it correctly, plus 9% for the full year, then again you've got that [indiscernible] issue, would that be fair to say that are the invasive ventilation business was down? Would that be fair?

Michael Grenfell Daniell

Non-Executive Director

Because of the hardware component.

Sarndra Ulrich

Jarden Limited, Research Division

Yes.

Michael Grenfell Daniell

Non-Executive Director

We saw growth in consumables but they got those humidifiers ahead of time and they're utilizing them.

Sarndra Ulrich

Jarden Limited, Research Division

Yes, I understand. So and I actually remarkably understood around 90% of what Tony said this time, but I just wanted to clarify in terms of the IFRS adjustments for FY '12 and FY '13, there were 17 and 14 prior to this new codes. Would that be right?

Michael Grenfell Daniell

Non-Executive Director

Correct. I think that was 17, 13 and about [indiscernible] previously. Now they're 17, 17 and I think 8.2 [ph].

Sarndra Ulrich

Jarden Limited, Research Division

17, 17 and around 8 for FY '15, would that be right? 14, sorry, I'm getting ahead of myself. And just one more thing, in terms of the 80% guidance, that still assumes that 50% covered the \$0.59, so your average would be -- the average that you're assuming for FY '12 would it be around the \$0.74 mark? Am I reading that correctly?

Michael Grenfell Daniell

Non-Executive Director

That's the way the math works up.

Sarndra Ulrich

Jarden Limited, Research Division

And I think I understand what you're saying is that the 20% constant currency growth really is about, as you see, the Mexico efficiencies plus \$6 million effectively versus last year and efficiencies coming out of Japan, would that be a fair summary?

Michael Grenfell Daniell

Non-Executive Director

In the earnings growth?

Sarndra Ulrich

Jarden Limited, Research Division

Yes.

Michael Grenfell Daniell

Non-Executive Director

Yes, and underlying growth, obviously. So what lifts that operating leverage, those are the two biggest factors.

Sarndra Ulrich

Jarden Limited, Research Division

Yes, okay.

Operator

[Operator Instructions] Your next question comes from Nachi Moghe from Morningstar.

Nachi Moghe

Could you talk a little bit about your global expansion strategy sort of diversifying away from the U.S. in dollar markets, such as Asia and Europe in particular for OSA? What kind of success have you achieved so far, and how much do you expect the end markets to contribute to revenue in, say, 5 years?

Michael Grenfell Daniell

Non-Executive Director

Well, we actually saw a slightly faster growth in non-U.S. markets over the year and in the fourth quarter, and that's partly due to our new ICON range was introduced in non-U.S. markets first. But if you look into the future, we expect to see non-U.S. markets in the market growth itself being faster in non-U.S. markets, given the U.S. is not particularly highly penetrated but the rest of the world is even less penetrated for OSA. And we have a strong distribution organization in place with sales and distribution offices in India or in China right throughout Europe, of course, and many other countries. So we see good opportunities over the long term.

Nachi Moghe

The other question was, you talked about your capital expenditure, the NZD \$85 million for F '12. Does that mean that you -- will you be able to maintain your dividend at \$0.07 per share given that your cash flow will be under pressure?

Antony G. Barclay

Nachi, this is Tony. I think at this stage, we're quite comfortable that we can do that. We've got plenty of room with the facilities we've got. The ultimate question around dividend is clearly earnings. So clearly, more comfortable with our lower exchange rate than higher exchange rate. But right now, the plan is to at least maintain that dividend going forward.

Operator

Your next question comes from Marcus Curley from Goldman Sachs.

Marcus Curley

Goldman Sachs JBWere Pty Ltd, Research Division

Just a follow-up question on cost. Tony, I suppose in that release at the back, you talk about a headwind from currencies of NZD \$39 million on revenue but only NZD \$17 million on net profit after tax. So could you give us a feel in terms of what the foreign currency cost base looks like at the moment?

Antony G. Barclay

Sure, Marcus. It's not too dissimilar from last year, so it's still around about 70-or-so percent, a bit little under now over that cost of sales being New Zealand dollar paid will be some U.S. dollar underlying possibly that we don't see because it comes through a New Zealand dollar upfront price. In terms of R&D

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where we're still virtually 100% Kiwi dollars, SG&A big ticket items they're round about 35% U.S., 24%-or-so euros, 15%-or-so Kiwi and then you've got in sort of descending order, Aussie dollars, pounds, Mexican pesos are now coming up to be sort of a part of that as well. Just actually going back to cost of sales with combination, I guess, of U.S. dollars and Mexican pesos we're probably getting close to about 25% of that cost of sales being paid for in those combined currencies. So hopefully that's enough for you there.

Marcus Curley

Goldman Sachs JBWere Pty Ltd, Research Division

Yes. But clearly, within the guidance here, you're expecting a fairly big headwind on currencies?

Antony G. Barclay

Oh, certainly at the upper end of the range, yes. I mean, we're well covered but we've still got a reasonably significant net exposure as you're aware. And that will become less as we go forward over the years as Mexico becomes a higher proportion of our cost base. And as Mike said, we get growth in other non-U.S. dollar-denominated sales markets. If that proportion changes somewhat, we'll lower our immediate volatility to the U.S. and New Zealand dollar, but it's still there today.

Marcus Curley

Goldman Sachs JBWere Pty Ltd, Research Division

And when you said on your hedging cover have 57% of net U.S. dollars, what's that net number?

Antony G. Barclay

That net number is effectively the U.S. dollars that we need to sell to convert to New Zealand dollars to pay New Zealand dollar costs and ultimately dividends, so it's not...

Marcus Curley

Goldman Sachs JBWere Pty Ltd, Research Division

I understand that. What actually is it?

Antony G. Barclay

It's not a number we've typically disclosed. I think what you can do is look in the financial statements and see the absolute amount of U.S. dollar hedge in and you should be able to work it out from there.

Operator

Your next question comes from Alex Smith from Citi.

Alexander Evans Smith

Citigroup Inc, Research Division

Just a question around ICON and I suppose the pricing strategy for that product, I think you mentioned that it's still a price premium. Can you just comment on that and particularly in light of the very strong fourth quarter sales number?

Paul N. Shearer

Senior Vice President of Sales & Marketing

Paul Sharer speaking. Well, obviously we're trying to get as much for the products as we possible can. And across our range of products, we've seen between a 15% and 20% growth in ISP across their flow generator range. So clearly, we're selling through as much as we can. Typically, in terms of the market pricing probably around the kind of price points the ResMed would sell it.

Alexander Evans Smith

Citigroup Inc, Research Division

And is there any discounting that's helping draw the sales growth in the fourth quarter?

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Paul N. Shearer

Senior Vice President of Sales & Marketing

We saw expansion in the fourth quarter.

Alexander Evans Smith

Citigroup Inc, Research Division

Okay, terrific.

Operator

There are no further questions at this time. Please continue.

Michael Grenfell Daniell

Non-Executive Director

You might like to just check one more time, Laura, if anyone has any questions.

Operator

[Operator Instructions] There are no further questions.

Michael Grenfell Daniell

Non-Executive Director

Okay, great. Thank you very much. Thanks, everyone, for joining us on the call. We have had a pretty exciting period particularly over the last quarter and our teams around the world are very encouraged about the opportunities presented by our new products and applications that we're working in. We'd really like to acknowledge and thank them for their outstanding efforts and the results that we're achieving and are planning to achieve. Thank you all. We'll talk to you next time.

Operator

Ladies and gentlemen, that does conclude our conference for today. Thank you for participating. You may all disconnect.