

Question and Answer

Operator

[Operator Instructions] And your first question comes from the line of Sarndra Ulrich of First New Zealand Capital.

Sarndra Ulrich

First NZ Capital Limited, Research Division

In terms of your -- when you talk about substantial growth for OSA in the second half, Mike, and for RH can you quantify perhaps what you were expecting in constant currency growth for those two categories in the second half?

Michael Grenfell Daniell

Non-Executive Director

Yes, we are looking for mid-teens or better growth in both halves of the business in the second half.

Sarndra Ulrich

First NZ Capital Limited, Research Division

So mid-teens to actually run would suffice?

Michael Grenfell Daniell

Non-Executive Director

Yes.

Sarndra Ulrich

First NZ Capital Limited, Research Division

I understood everything that you said about currency, Tony, I just want to make sure everyone else does. But I'm very confused. In terms of -- can I just clarify in the accounts, it looks like around \$12 million of it, cash flow hedge reserve has been transferred to the P&L this half, is that right? The \$13.3 million paychecks and tax on movements at \$1.6 million?

Antony G. Barclay

Consultant

Sure. I mean, what happens is, Sarndra, is that at 31 March, we had a certain position in terms of instruments and as we've gone through the first six months, as those instruments have actually been used, if effectively, what happens is that, that value gets transferred out of the reserve and comes through the income statement. That affects the [indiscernible].

Sarndra Ulrich

First NZ Capital Limited, Research Division

So that would in part explain the disconnect between your operating cash flow and your EBIT. Would that be fair that part of that is in there?

Antony G. Barclay

Consultant

Not necessarily. That part of it, no, the disconnect is more in relation to what we've seen in terms of the build up of inventory and the need to pay two tax payments in the first half, otherwise, no. I mean, those instruments would have actually been delivered and been turned into cash.

Sarndra Ulrich

First NZ Capital Limited, Research Division

And just perhaps moving on to -- just to try and simplify FY '12 in terms of the cover, how you say second half, for example, 70% of the second half is covered at \$0.60 and for euro, 70% for the second half is covered at \$0.45. I'm just trying to get a feel as to what you've done for FY '12. I mean, could you be more specific in terms of your actual cover for FY '12 for just out of U.S.?

Antony G. Barclay

Consultant

We don't have a huge amount of cover in there, although we did take the opportunity a couple of months ago, I guess now, to replace some of the monetized hedges that we dealt with a year or so ago. So I think from then we were around sort of 15% to 20% covered around again that sort of 60% level. But then on top of that, we've got \$17 million before tax from the monetized hedges, which will flow into FY '12.

Sandra Ulrich

First NZ Capital Limited, Research Division

So that's still around that \$17 million...

Antony G. Barclay

Consultant

That's a number. Unless we do anything in terms of monetizing any more hedges, it is a fixed number.

Sandra Ulrich

First NZ Capital Limited, Research Division

And the FY '13 for that amount, is that still around \$12 million?

Antony G. Barclay

Consultant

Yes. \$12 million or \$13 million.

Sandra Ulrich

First NZ Capital Limited, Research Division

In terms of competitive activity, just before I go, anything in particular that you're seeing. I mean, we hear what's coming out of ResMed. Anything that you're seeing out of Respironics or Philips?

Michael Grenfell Daniell

Non-Executive Director

We are not seeing anything unusual, no.

Sandra Ulrich

First NZ Capital Limited, Research Division

And also no competitive biddings, things further to what we've maybe seen or...

Michael Grenfell Daniell

Non-Executive Director

We're just watching and waiting now.

Operator

Your next question comes from the line of Jason Bloom of UBS.

Jason Bloom

UBS Investment Bank, Research Division

Just a quick one on Mexico. Could you give us a feel for just how much of the overheads aren't being recovered in the first half? I guess how much was the negative amount in the first half from Mexico and I guess in the second half, what that's likely to be in terms of the positive number, hopefully?

Michael Grenfell Daniell

Non-Executive Director

We're looking at the first half, the fixed cost of Mexico having grown about \$4 million over last -- first half last year. So it's been a drag of \$4 million, effectively. We are looking to be ramping up capacity through the second half and as we near the end of this financial year and as we move into the early part of next financial year, we expect the savings to get us into a breakeven situation. But we're not really looking for a net positive in the second half but on a run-rate basis, we're getting pretty close to it.

Operator

Your next question comes from the line of David Oxley of Craigs Investment Partners.

David Oxley

Just to absolutely clarify on the FY '12 hedge position, you said you got USD \$73 million at \$0.56 beyond FY '11, have I understood rightly that I should be assuming that you've got roughly 20% cover at \$0.60 in FY '12 plus \$17 million presumably U.S. dollars of the monetized hedges, which comes in FY '12? Is there anything else in FY '12 and beyond?

Michael Grenfell Daniell

Non-Executive Director

The \$17 million is New Zealand dollars not U.S. dollars. There is no hedges in the FY '13 year, but there is \$13 million Kiwi again of [indiscernible] from the monetized hedges. There has been a portion of our hedge book that we still have relates to the FY '14 year and to be honest struggle to tell you that exact number right now and again, in '14 there's about \$1 million or \$1.5 million of monetized hedge that would come through as well.

Operator

[Operator Instructions] And your next question comes from the line of Marcus Curley of Goldman Sachs.

Marcus Curley

When you talk about RSA growth, mid-teens second half, and this statement, obviously, refers to a strong response to the ICON. Is the mid-teens a relatively low number against your own history, given that you have a new product in the market that's been by the sounds of things, well received?

Michael Grenfell Daniell

Non-Executive Director

Let's hope so, Mark, since I said, mid-teens or better so we'll have to wait and see what it is. But we'll be looking for a good strong number.

Antony G. Barclay

Consultant

One other thing you need to take into account, too is you're getting the other products in the market in the U.S. which is we haven't gotten yet so it's only really going to be happening over the next few weeks. So we don't really get any of those products in the market effectively until about Q4. So that's going to impact too. But getting a very good -- great reception on the product, we've already been talked to from dealers, patients, physicians, and this takes time so we're very, very pleased and it will be really kicking in, in Q4 for us.

Marcus Curley

And what are the customers saying at the moment that are seeing the product? What's their response relative to other products in the market?

Michael Grenfell Daniell

Non-Executive Director

Well, I don't want to talk too much about other peoples products, but we're getting very good response on the product. They really like the product, they like the size of the product, the features in the product, they like the patient features, the psychology of the product. Generally, to everyone we're showing it to, we are getting a very good reception from the product.

Marcus Curley

And could you just also talk about the pricing of the product. Obviously, that's probably when you look at this traditionally, the pricing does vary a little bit in the first few months as you find your feet. What level of premium do you think you're going to achieve over your old models?

Michael Grenfell Daniell

Non-Executive Director

We're definitely getting a premium over the old models, Marcus. And we're just playing it by ear as we go, basically. But we obviously, getting more for it than we were getting for our previous models and we're going to get as much for it as we can.

Marcus Curley

Second question on the ICON, Mike, could you just talk about -- is there any issues on the manufacturing side? Any restrictions there in terms of the rollout over the next 12 months?

Michael Grenfell Daniell

Non-Executive Director

No, that's all going to plan, Marcus, and we are building inventory in anticipation of growing demand.

Marcus Curley

Where would you currently say that utilization relative to sort of maximum capacity if you looked at maximum capacity on FY '12 basis, where are you now relative to that?

Michael Grenfell Daniell

Non-Executive Director

Well, we're ramping up. We don't want to run too far ahead either. Of course, we're probably running at about half of what we know we are going to be capable of in the coming calendar year.

Marcus Curley

On the OSA side?

Michael Grenfell Daniell

Non-Executive Director

Yes.

Marcus Curley

And you probably will regret suggesting that the downgrading guidance was mainly relates to currency. I suppose what was the other component that...

Michael Grenfell Daniell

Non-Executive Director

The other component was that we think we might see pretty minimal growth in humidifier controllers in the second half as a continuation of digestion of last year's swine flu stocking and there's no question the Europeans are feeling a bit nervous so we just factored that in. It may not happen, but we factored it in. So that's the other component.

Marcus Curley

And what would that represent to? \$1 million or so dollars?

Michael Grenfell Daniell

Non-Executive Director

Yes, exactly. Call it \$1 million or \$2 million.

Marcus Curley

Just on the COGS, on the constant currency basis, I think you said that you saw a lift in margins in line with reported, but could you tell me what the constant currency growth in COGS was in the half?

Antony G. Barclay

Consultant

Yes, Marcus, this is Tony here. It was minus 1%. So savings from sea freight did affect our efficiencies and as Mike talked about as well, the fact that we've discontinued that distributed line in Australia, the warmers in North America, has all rolled up to one.

Marcus Curley

And is that sort of lift in margins of sort of 2% to 3% I think from looking at the result. One would assume that fades a little bit in the second half or possibly not?

Antony G. Barclay

Consultant

I think we would hope that it will continue but maybe not to continue to increase at the same rate. We got into -- with capacity growth, we've been putting a lot of capacity on, as you know. We got into sea freight a bit quicker than we expected on some product lines in the first half, so, hence, we did a bit better in the first half than we guided at the [indiscernible] in August. But we'd always anticipated to be into sea freight by the second half by a number of lines.

Marcus Curley

And then finally, Tony, just on the basis of that guidance, can you just give us a feel of what currency hedging gain you would you be broadly having in that guidance?

Antony G. Barclay

Consultant

At what level Marcus, revenue and operating profit?

Marcus Curley

Why not?

Antony G. Barclay

Consultant

For the full year, revenue probably around 38-ish.

Marcus Curley

38?

Antony G. Barclay

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Consultant

Yes, 38. And for operating profit, probably the same number.

Operator

[Operator Instructions] And there are no further questions at this time so please continue.

Michael Grenfell Daniell

Non-Executive Director

Once again, we've got a few minutes we can answer some more but if not, we'll end the call.

Operator

[Operator Instructions].

Michael Grenfell Daniell

Non-Executive Director

Okay, great. Well, thank you everyone and thanks for joining us on the call today. We look forward to talking to you again. Bye.

Operator

And that does conclude our conference for today, thank you for participating. You may now all disconnect.