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Presentation

STEVE WHEEN, ANALYST, JP MORGAN: Good morning, everybody. My name is Steve Wheen. [I'm the] healthcare analyst for JP Morgan in Sydney, Australia. And it's my pleasure to welcome Mick Farrell to the podium from ResMed, the CEO of ResMed, nicely timed with the announcement this morning of a new mask release the AirFit P10 which is quite an innovative new mask for ResMed in terms of quietness, size and weight. So I am sure you'll hear some more on that front.

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But without stealing Mick's thunder, I'll hand straight over. Just a quick reminder, the Q&A session is down the hall on the -- take a left into the Olympic Room. Thanks very much. Mick?

MICK FARRELL, CEO, RESMED INC.: Thanks, Steve. Steve asked me if that mask launch -- product launch was timed with JP Morgan, it was not. It's on our R&D cycle.

I'll be making forward-looking statements throughout this presentation.

So I'm going to cover briefly who we are, what we do, why that matters to you as investors, how we perform and execute, where we're going, what our strategy is and why ResMed is a good investment.

So who we are? I'm seeing a lot familiar faces in the audience. So a lot of you know our story already, but I'll cover it briefly. We are the global leading developer, manufacturer and marketer of products and services and solutions to treat and manage sleep disorder breathing as our sort of core market and COPD as a new emerging market for us, and we will talk a little bit about some of the chronic respiratory disease conditions and their links to heart failure and some other cardiovascular conditions as part of that.

**Company** snapshot; we operate in around 100 countries, just over that now. We manufacture in all three major regions, including Australia, France, Singapore and the US. We put about 8% of our revenues into R&D which is generally ahead of our competition. We think that's a sustainable competitive advantage. And on that front, we have 3,000 patents issued and/or pending. Annual revenues topped \$1.5 billion through June 30, and we have around 4,300 employees dual listed on the NYSE and ASX.

This is our Holy Grail, our Holy Grail of healthcare. We do three really important things for the healthcare system. We improve the quality of life of our patients. Many therapies, many pills don't make a change to patients' lives. We have symptomatic relief. We literally make patients who feel like they have had a hangover for 20 years feel refreshed for the first time. Secondly, we prevent chronic disease progression. We lower blood pressure. We improve left ventricular ejection fraction in heart failure patients. So we produce better outcomes. And thirdly, really importantly, particularly with the changes going on in global healthcare systems and particularly in the US with Obamacare and the percent of GDP we spend on healthcare here, we lower costs. We lower overall costs of the healthcare system. After paying for our therapies there is an ROI for payers and payer providers and governments to diagnose and treat our core disease states. So I'm going to talk about each of those.

For those of you who are familiar with the story, sorry for this, but for those of you who aren't, sleep disorder breathing covers two major areas; obstructive sleep apnea which is the sort of choking and collapse of the upper airway, right, the occlusion and then movement forward, whereas central sleep apnea is an open airway where your carotid body or CO2 receptor in the bottom of your brain stem is not responding and you're not breathing with an open airway. We treat both of those disease states in sleep disorder breathing, our core market.

Why does this all matter and how does this fit in with global mega trends? Well, we all know we have aging populations, baby boomers are coming through. We know there's a rise in obesity which is now called a diseased state. We know we have escalating healthcare costs, we'll look at those macroeconomics a little bit in a moment, and we know that there's an increasing burden of chronic diseases. 75% of the expenditure in US healthcare is on chronic diseases, and we -- right in that sweet spot, we treat patients with three top chronic diseases; sleep disorder breathing, COPD and heart failure and they are all related.

How we perform? Last quarter, we announced Q1, we were up 4% constant currency in the top line, 5% headline. We were up 14% in both net income and earnings per share and had very solid cash flow from our operations of around \$90 million. Importantly, in a tough market we maintained some pretty good gross margins at 63.7%.

This is how our products split up. You can get this by reading our 10-K. We're about 55% -- 56% Americas, 45% rest of world, split 34% Europe and 10% in growing Asia-Pacific market.

If you go back over the last five or six fiscal years, we've had a reasonably steady growth pattern. 13% five-year compound annual growth rate and we think we can continue that given that we are less than 5%, 10% or 15% penetrated into our core market, meaning 85%, 90% or 95% of the opportunities are left in front of us, the Americas, Europe and Asia-Pac.

Similarly on net income growth, we've had a steady five-year picture. 24% compound annual growth rate, net income and also with earnings per share, we've been able to maintain solid double-digit five-year compound annual growth rate at the 26% range.

So what we do, what's our mission? Our mission is changing lives one breath at a time. We use respiratory medicine linked to the cardiovascular system and the metabolic system to improve the whole body through the respiratory system. And the last 12 months, we **sold** over 6 million mask systems and over 1 million devices on the bedside table. And so together, we impacted 7 million lives. That's going to be 10 million lives by 2015 and it's going to be 20 million lives by 2020 if we execute on our plans which I'll go through.

So how are we going to do that, how are we going to get to 20 million by 2020? We have what we call our three horizons of growth. Our first horizon of growth is our core market. And as I was saying before, we're not done there. 85% to 95% of the opportunity is in front of us. [We are] simultaneously using the cash flow and growth and scale that we get from that core business to invest in our second horizon of growth which is, at a high level we'll call it respiratory care, but it includes COPD, it includes obesity hypoventilation syndrome, it includes neuromuscular disease, including ALS or Lou Gehrig's Syndrome, but it also includes geographic market expansion. So we are expanding in **China**, India throughout Eastern Europe and Latin America. We'll talk a little bit about that.

Our third horizon of growth is in the area of heart failure. Just heard the last speaker talk about heart failure as having very high death rates. 50% of the patients die every five years and it's very bad quality of life and very expensive for their insurance **company** as well as being bad for them. We treat both of those things. We lower the cost and improve their quality of life, and we'll talk a little bit about that.

So firstly on horizon one, our core market, prevalence, these are the latest data from what we call our Framingham Heart Study for the sleep field. It is the sleep heart health study done out of the University of Wisconsin. Dr. Terry Young and her team, latest data, 2013 has 26%, one in four 30 to 70 year olds have some type of sleep disorder breathing.

There are questions about the growth rates and there's been some what we call a recent crimp in the hose, if you like, of our US patient flow through a government program called Competitive Bidding. And what we are looking at on this slide is that if there's a crimp in that hose then the flow of water through the garden hose is the number of patients. And what we're seeing in the market, you probably can't see it up the back, but at the bottom half of the left hand side is about Medicare and the growth rates there and the top half, the dark blue, is the rest of it, the 75% that is private pay. What we're seeing is a return to growth of the number of patients coming through the channel so that if you like this pressure building in that garden hose which is crimped by the US HME channel and the right hand side of the chart talks to we are working with our HME channel, the home medical equipment providers to un-crimp that and get patient flow back to where it should be. And we're projecting somewhere in the vicinity of a 7% growth rate in the device side in terms of unit flow.

You add on to that the masks and trailing revenues from that and we think we've got some good low double-digit growth rates that we should project over the coming fiscal years. And then with expected sort of 5% to 7% price decline, a solid pretty steady 6% to 8% revenue growth that we should expect from our industry.

You certainly can't see this up the back, but what we've got is four parameters on this chart. There is primary care physician unit growth, US hip and US knee, ortho procedures which we see as a proxy given their elective procedures and could be linked to DMA and sleep apnea therapy and also US consumer sentiment. Just in general what we're seeing is after the global financial crisis patients are coming back into the system and there is an up to the right trend that we're seeing in the macro side, which we're also seeing in the number of prescriptions coming through the channel.

So I talked a little bit to the impacts of sleep disorder breathing on cardiovascular disease. The numbers in blue are the number or percentage of patients with that core disease state that also have sleep disorder breathing to some extent. And as you can see 50% to 70% to 80% of core cardiovascular disease patients have some level of sleep disorder breathing. As you turn to the neurological side, stroke patients, depression and into the metabolic syndrome side and type 2 diabetes and morbid obesity 45% to 70% of the patients have these core disease states. So sleep disorder breathing, if you like, a respiratory problem, is [in-extrinsically] linked to the cardiovascular system and the metabolic syndrome. And not only linked, but when you treat the core disease state you can actually improve the outcomes in cardiovascular disease and neurological disease.

So switching from the clinical side to the healthcare economics side, this is a chart where the Y-axis is the life expectancy within the country and the X-axis is the cost in US dollars per person in that country for healthcare. This is data from the OECD from last year. There's a little bit of an outlier on the curve that I have [subtly] highlighted in red here. In the US our life expectancy is equivalent to that of South Korea and the UK, yet our expenditure is \$7,000 per person per year as opposed to \$3,000 per person per year in the UK or \$1,800 per person per year in Korea. So this is an indication that maybe a pure fee-for-service system that doesn't look at the holistic management of patients could do with some analysis. And with the Obamacare, the Affordable Care Act coming in, we don't think it's great legislation, but we think there were two good parts of it.

Firstly, the ACI has -- ACOs, accountable care organizations, which now combine hospitalists and primary care physicians to care about a per member, per month management and for an area where we take patients out of hospital and cost-effectively treat them in the home lower costs and improve outcomes, we think that plays well to shift the US to the top left of that chart and get back on the line.

So what are the data behind this? Cardiovascular disease and stroke cost the US healthcare system \$400 billion a year, asthma costs \$20 billion a year, diabetes costs \$132 billion a year and obesity, [a separate disease as a disease state] costs \$148 billion a year. Where does obstructive sleep apnea fit on that? The data from a Harvard McKinsey study recently released show it's around \$165 billion a year. It does not currently get that level of attention from primary care physicians and cardiologists community. It's our job at ResMed to make that happen to provide data in peer-reviewed publications to start showing that.

We've done it with employers and these are data from Population Health Management, healthcare to economics journal, showing that in the first year of treatment, our therapy can lower total costs by 30%. Self-funded employers, particularly those with large truck fleets are looking at this space, J.B. Hunt, Schneider Trucking and also Waste Management. These are data from Waste Management that they published showing 37% reduction in the total healthcare costs for the patients that were diagnosed and treated with sleep therapy versus those that were -- had the disease state and were not treated.

Other trends that we're seeing is the growth of cost-effective ways to diagnose the patients. Previous to 2008, most of the diagnoses in this country were done in a sleep lab which is a relatively costly way to diagnose the patients. We're now seeing, what we call, home sleep testing, and basically you take a device like our ApneaLink there, which is the size of your iPhone, now home and can come back to the doctor the next day. The nurse can download it and you can find out pretty quickly whether you have, with a high level of sensitivity and specificity, sleep disorder breathing.

We approximate that it's around 30% to 35% of the tests now done in the US in the last 12 months and we think there's a lot of runway ahead. We think that would be 40% in the next nine months and will keep increasing from there. As a sort of checkpoint on that, France, in Europe, 80% of the studies are done in home sleep testing. So we think there's a lot of runway ahead for us in that front.

So let me walk through our products pretty quickly. Our devices, we own the most expensive real **estate** in the world and it's not Kearny Mesa in San Diego where our headquarters is, our general dynamics land, it's your bedside table. And we are on millions of them and these devices are now 24/7 connected to power and many of them are connected to healthcare informatics systems, and I'll talk a little bit about that in a moment.

We are the number one patients preferred mask. These are the parts of the product that touch the face of the patient. It's the most critical point. Patients need to feel comfortable all night, every night to stick to this therapy. We have higher adherence rates than many pharmaceutical applications because of the

symptomatic relief, but our challenge is to make it as comfortable as possible for patients to want to actively use our therapy every night.

On that front, I'll walk through three masks really quickly. Truth in advertising, we do not cause levitation. However, the Quattro Air is the lightest, at 3.3 ounces is the lightest full face mask on the planet. And for someone who breathes through their mouth, they need a full faced mask. We need to make it as light and as comfortable as possible.

We launched the Swift FX Nano which is the smallest nasal mask on the global market. It's small in size, big on comfort. That's for the nasal category. And just this morning, as Steve stole my thunder, the AirFit P10, where the P is for pillows, mask just launched. The advertising is large earmuffs because this thing is 50% quieter and 50% lighter than our product which was the category-leading Swift FX and really importantly it's easy to fit. The RTs and the doctors, they don't have time, they don't have money, they want this thing to be instantly working on the patient, and so we are able to help them with that. I've personally been wearing this mask for the last 30 days and I got to tell you it's the best pillows mask we have ever brought to market.

Similarly, we've done some segmentation around gender. We have the For Her line. 40% of the patients showing up for a home sleep test or PSG are now females. And prior to ResMed launching out For Her line, there were no products designed for females. They have different dimensions [of] the face, different breathing patterns and different needs for headgear. And we've accustomed the market for that and have had incredible growth in the For Her segmentation part of our line.

Similarly, we are not just a box and blower business. We have sleep therapy that goes well beyond that. We bought a **company** in France called Narval. This is now our Narval product which is a mandibular repositioning device which can -- is a dental device that can position the mandible, tongue and the lower -- touching the lower uvula and pull the tongue away to cause a mechanical effect similarly to the pneumatic stent that CPAP provides. It's a relatively small niche application, maybe 5% of patients would want this therapy, but it's something that we thought if someone's going to treat sleep apnea it better be ResMed.

I talked about owning the most expensive real **estate** in the world and having access to healthcare informatics data. We are now taking literally millions of data points and providing that information to doctors, to payers and to patients so that patients can get involved in their therapy, so that physicians can, on an exception basis, manage their patients on therapy and so that payers can track the return on investment they get by having diagnoses and prescription for our devices on the bedside table. We think this is really important in showing evidence-based outcomes through hard objective data.

We also believe in the not-invented here and the anti growth only the paranoid survive philosophy. And there was a **company** in Nova Scotia, Halifax who was doing some great third-party compliance data on not just ResMed devices but also some of our competitors. So we bought the **company** and we now have the ability through our U-Sleep product to text, e-mail, through SMS or voice mail directly to patients on their -- you ask the patient how do you want to be contacted and the doctor sets up the contact point. The voice mail can come in the voice of the RT, respiratory therapist who set you up to keep you encouraged and on therapy. It sounds pokey, but if it drives compliance from 70% to 80% that's a real hard outcome for a payer.

So really quickly our horizon two is around COPD and emerging markets areas. COPD, 80 million patients worldwide. We think north of 5 million of them can be treated with our therapies. Our latest product is the first and only FDA-cleared product to treat COPD in the US market. The product is called the VPAP COPD. We expect a steady S curve of growth over the coming four to eight quarters of that product.

And as we announced on our earnings call a couple months ago, we will in the next six months launch a new respiratory care product platform to replace and enhance our current respiratory care product portfolio in this space. And so, we are already number one or number two in pretty much every country in Western Europe for homecare ventilation. We are going to leapfrog ourselves with the new platform in the coming 6 to 12 months launching first in Europe and then into the Americas.

The value proposition here is the same as in sleep. We improve the quality of life for these patients literally giving them mobility and we lower the total healthcare costs. We get them out of the ICU, CCUs and step-down ward and in their home.

So covering briefly our third horizon of growth in heart failure, as I talked to earlier, our devices can lower blood pressure. Data have shown 4 to 10 millimeters of mercury reduction in blood pressure by patients who have obstructive sleep apnea and who are compliant with therapy.

That's got us on to sort of early stage guidelines [I would call] Class 2A guidelines on the ACC/AHA guidelines. Our goal is to be Class 1A guidelines and we are running three studies in the space of heart failure. The most important of these is called SERVE-HF. It's mostly a European study; 1,300 patients.

Three outcomes; mortality, morbidity and cardiovascular improvement. If we're able to show one of those, this is a game changer for us. These data are going to come out mid-2015, be published late 2015, early 2016. But we think the ability for us to move cardiologists to diagnose and treat this disease state requires these types of evidence-based medicine and we're going to be producing that.

CAT-HF is a study in the US to get Class 1A guidelines for ACC/AHA and Savior is an acute study where in Japan cardiologists are prophylactically taking heart failure patients and putting them on our proprietary therapy adaptive servo-ventilator and they are seeing a reduction length of stay, an improvement in ejection fraction and an improvement in the long-term outcomes of those patients. So we're going to be publishing all these data over the coming 12, 24, 36 months.

So in summary, we are a sustainable top and bottom line growth **company**. We are the market leader. We are investing in the future of this space, both in clinical trials and in technical data. We have operational excellence at our core.

Quick look at our balance sheet, we have \$976 million in cash with our debt position at net \$616 million. So we have powder dry, we will give it back to our shareholders through dividends, through buybacks and we have a solid return on investment -- return on equity at 20%. Here are some data on what we've repurchased the last quarter.

But in closing, I'll say what we started with that ResMed, we are changing lives one breath at a time and we think there's a whole lot more in front us than behind us. Thanks a lot for your time.

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