

ASX: RMD

Pitched by Tom Maclean, Winnie Cao and Rohit Guthpe

Recommendation: Hold							
Current Price	Target	Value Gap					
\$36.9	\$26.5	-28.1%					

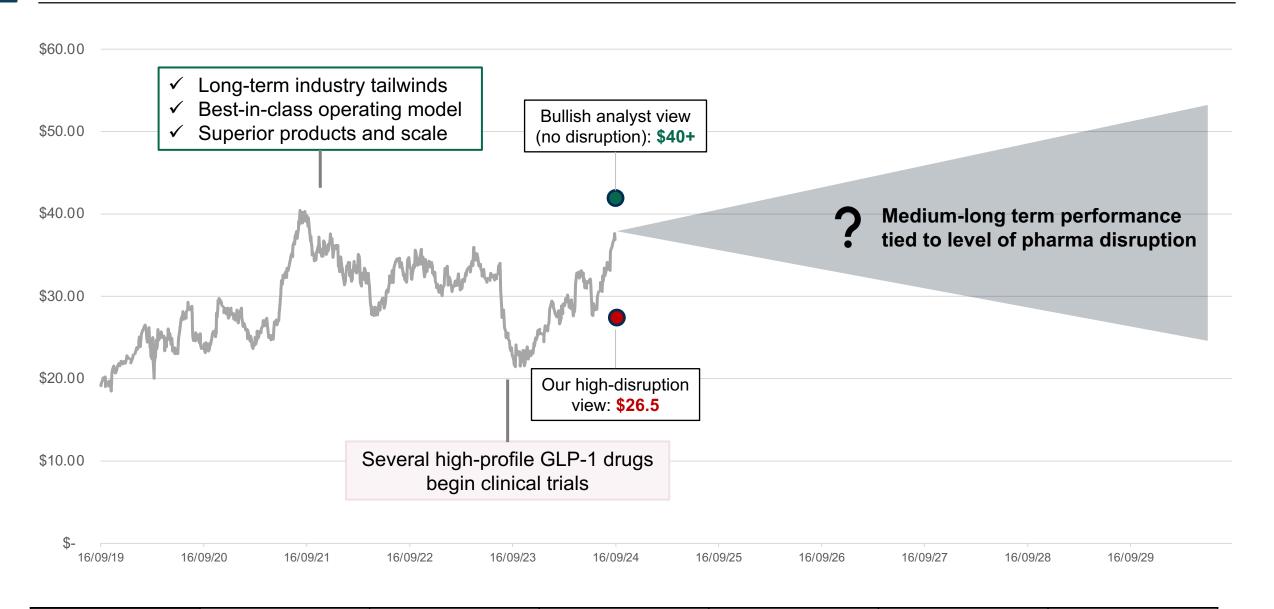


Overview

Business

The high uncertainty around pharma disruption led to our hold recommendation

Industry



Strategy & CA

Risks

Financials

Appendix

A best-in-class medical technology company, alleviating sleep apnea through their devices and software

Business Overview

- Core focus is Medical devices for sleep apnoea, COPD, and respiratory conditions, but also accessories for those products such as masks.
 They also sell ventilators that were heavily used during COVID and software that is meant to be used in conjunction with the medical devices.
- Founded in 1989 in Australia by Dr. Peter Farrell, now run by his son Mick Farrell, : relocated to San Diego, USA in 1990 to better access the U.S. market, the world's largest healthcare sector. Operating in 140+ countries with 10,000 employees.
- Huge market opportunity; around 1 billion people are affected with sleep apnoea and 80% are undiagnosed. 480 million for COPD, and 860 million for insomnia and sleep disorders. Opportunities in ageing population, emerging markets and home healthcare trends.



Key Metrics					
Current Price	\$36.88				
52 Week Range	\$21.14 - \$37.99				
Market cap	\$54.56 Bn				
FY24 Revenue	\$6.98 Bn				
FY24 EBITDA	2.29 Bn				
FY24 Net Income	1.52 Bn				
Gross Margin	57.4%				

Overview	Business	Industry	Strategy & CA	Risks	Financials	Appendix
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ResMed has three operating segments: medical devices, accessories, and SaaS solutions.



Medical Devices

- Continuous Positive Airway Pressure (CPAP) devices are used to treat sleep apnea by providing a steady flow of air to patients during sleep.
- The **AirSense** series is the company's flagship CPAP line, offering advanced features like climate control and remote monitoring.
- AirCurve is for more complex sleep apnea cases, while AirMini is a portable CPAP, ideal for travel and convenience, tapping into a growing market of mobile users.
- Revenue primarily comes from direct sales of these devices to hospitals, sleep clinics, and patients, with strong ongoing demand due to the chronic nature of sleep apnea.
- Medical devices also includes a range of high end invasive and non-invasive ventilators, including key products like Astral, Lumis, and Stellar.



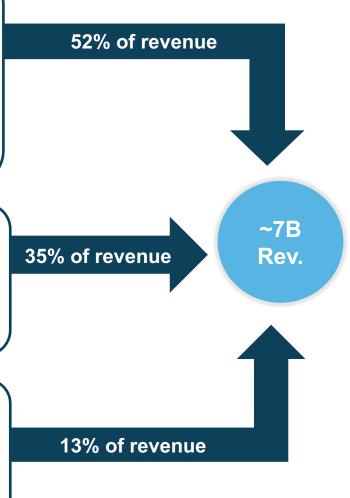
Accessories

- A range of add-on products, such as **masks**, **humidifiers**, **filters**, **and tubes**, designed to complement their PAP and ventilator devices.
- These accessories provide a high-margin recurring revenue stream, as they must be replaced regularly due to wear or for hygiene purposes.
- Masks, in particular, represent a significant portion of ResMed's recurring income, as they are customized to patient needs and replaced frequently

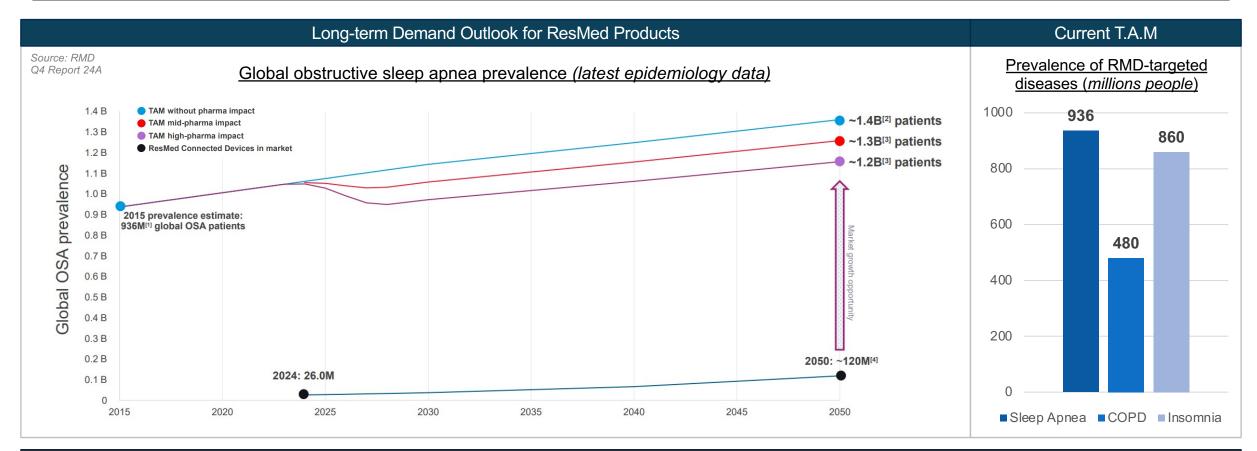


Software-as-a-Service (SaaS) Solutions

- **MyAir**: A patient-facing mobile app that tracks CPAP usage, offering patients insights and motivational tools to adhere to treatment. Comes with devices, indirect sales.
- **AirView**: A subscription-based cloud-based platform enabling healthcare providers to remotely monitor patients' sleep data and treatment progress.
- Other platforms include Brightree (CRM software) and MatrixCare (SaaS for senior care)



ResMed targets three of the world's most prevalent, under-penetrated, under-diagnosed chronic diseases

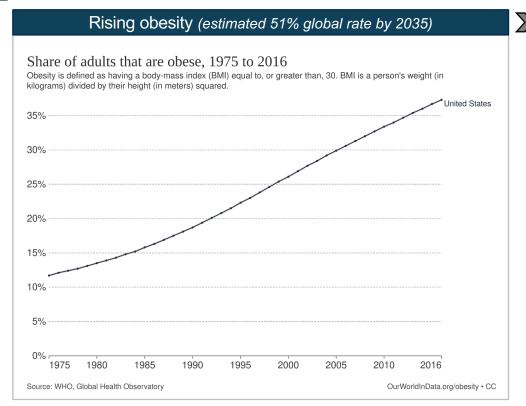


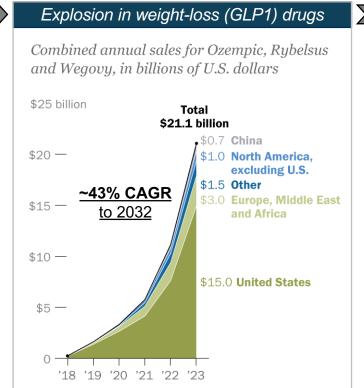
Commentary

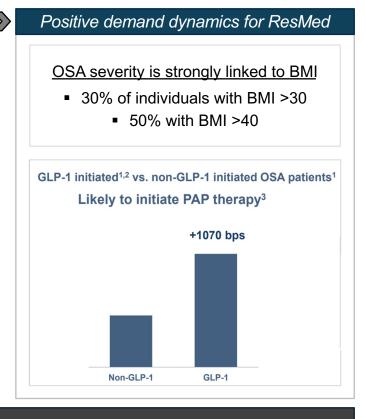
- Large, stable T.A.M: RMD's product portfolio targets extremely prevalent, chronic (long-term) diseases. Sleep apnea, for example, affects an estimated 20-30% of people, with ~75% of individuals with sleep apnea being currently undiagnosed. The global sleep apnea devices market is conservatively valued at \$9.7B USD (2024), expected to grow to roughly \$18.3B in 2023 (CAGR: 8.3%).
- **Dominant Positioning:** ResMed, based on operating metrics, is **a global market leader in sleep apnea solutions**, alongside its SaaS & respiratory care arms.

Overview	Business	Industry	Strategy & CA	Risks	Financials	Appendix	
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Rising obesity and ageing population drive demand for sleep apnea solutions and GLP-1 weight loss drugs, increasing uptake of ResMed products







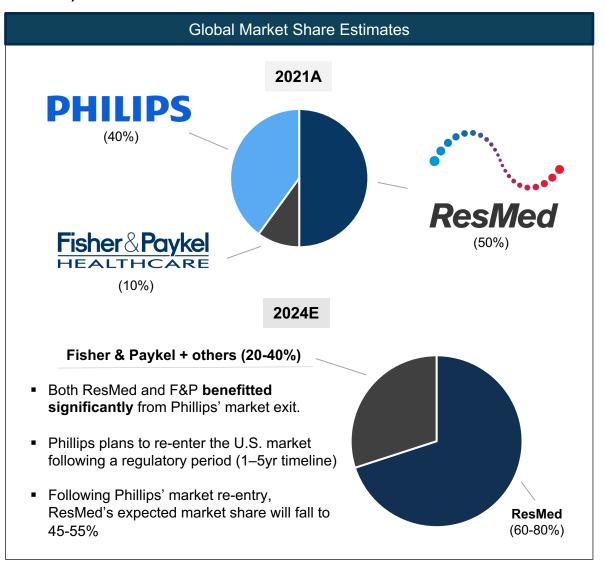
Commentary

- The most significant cause of sleep apnea (OSA) is **obesity** due to fat deposits blocking facial airways. Obesity rates, particularly in ResMed's core developed markets (N.A., Europe, etc) **are growing at unprecedented rates** due to a societal health crisis. **Ageing population** and **at-home care** are also demand drivers.
- Consequently, weight-loss (GLP1) drugs have grown enormously successful. Pharma companies producing drugs like Ozempic, including Novo Nordisk, Eli Lilly,
 Arca Pharmaceuticals, etc, have seen their market capitalisations increase rapidly over the past 5 years due to this trend.
- Counterintuitively, ResMed's findings indicate that patients using <u>GLP-1 drugs are 10.7% more likely to initiate sleep apnea therapy.</u>

Overview	Business	Industry	Strategy & CA	Risks	Financials	Appendix
----------	----------	----------	---------------	-------	------------	----------

ResMed dominates the highly consolidated sleep apnea device market, though market share outlook is negative due to Phillips planned market re-entry (post 2021 exit)

Phillips Market Exit (2021) and Potential Re-entry Regulation **Amid Recall Crisis, Philips Agrees to Stop Selling Sleep Apnea Machines in the United States** The breathing machine manufacturer has faced relentless criticism over its handling of the 2021 recall of millions of devices. Philips must meet the requirements outlined in an agreement with the Justice Department before it can resume sales. Healthcare & Pharmaceuticals | Product Liability | Commercial Strategy | Approvals | Regulatory Philips' US sales of sleep apnea devices face years-long halt after FDA deal By Bart H. Meijer Aa January 30, 2024 4:39 AM GMT+13 · Updated 8 months ago



brightree¹

R&D-centric M&A and investment strategy, mission to improve 250m lives in out-of-hospital healthcare by 2025



Overview Business Industry Strategy & CA Risks Financials Appendix

♣ HB Healthcare

III MEDIFOX DAN

ResMed has an unmatched global distribution network and customer-centric digital health eco-system



A strong brand reputation with global presence and robust strategic partnership

 ResMed maintains its position as a market leader with a substantial market share and a presence in over 140 countries. The company has established robust partnerships and is expanding its market presence through relationships with suppliers, distributors, hospitals, general practitioners, clinics, and physicians globally.

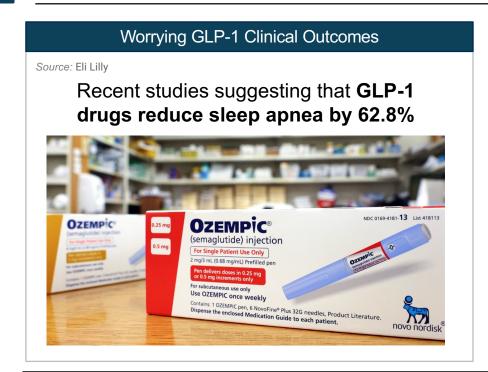
Innovative product portfolio with a strong focus on R&D

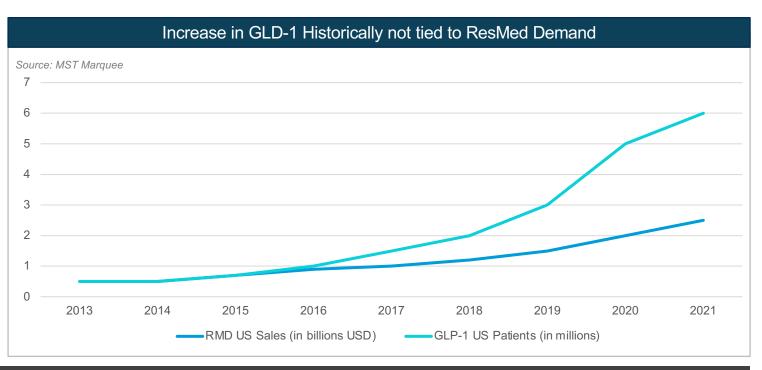
 Access to data collected from patients and healthcare providers supports ResMed's ongoing research and development efforts. The company continues to support some of the largest sleep apnea studies in history by performing advanced statistical analyses on millions of real-world, deidentified clinical data points gathered through its cloud-connected devices and patient engagement tools. This data is reinvested into research and development to enhance clinical applications.
 Clinical trials are conducted across all continents.

A customer-centric approach focused on out-of-hospital care.

- Due to the comprehensiveness of its equipment and digital health ecosystem, customers are highly likely to use multiple products from ResMed.
- Within 2023, the company recorded 156M lives changed.
- 7.5M CPAP users has signed up for MyAir.
- SaaS are providing service for over 850K users and serving 118M patients

Introduction of GLP-1 drugs pose a major disruption risk to ResMed's core sleep apnea device market

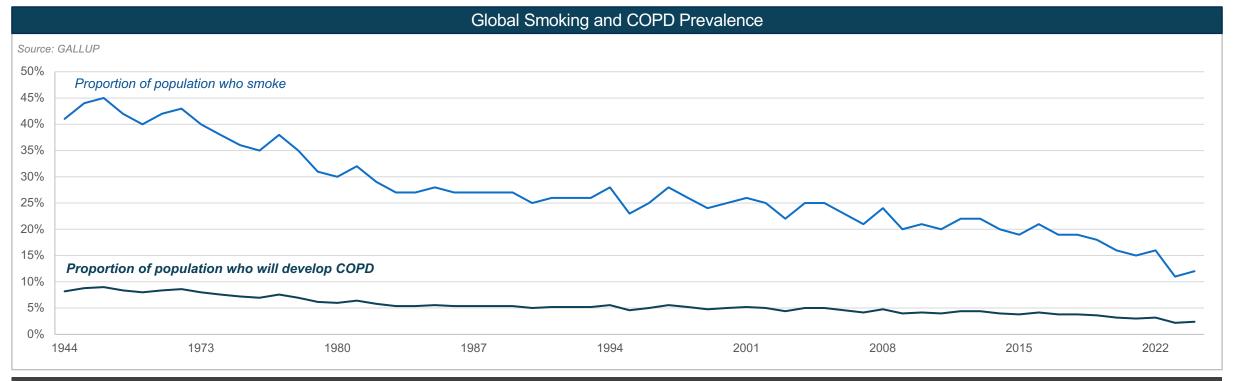




Commentary

- Recent developments in GLP-1 drugs, such as Eli Lilly's Zepbound, have raised concerns about their potential impact on ResMed, a company specializing in sleep apnea devices like CPAP machines.
- Zepbound's ability to reduce sleep apnea severity by up to 62.8% has sparked fears that GLP-1 treatments could diminish the need for ResMed's products. However, these concerns appear overblown.
- ResMed's steady sales growth, along with management's insights that GLP-1 users are actually more likely to begin airway therapy, suggests a more optimistic outlook. With nearly a billion people worldwide suffering from obstructive sleep apnea and multiple factors beyond obesity contributing to the condition, ResMed's market potential remains strong. Also, they are currently in a shortage.

ResMed provides care for patients with COPD, 85-90% of COPD cases historically caused by cigarette smoking. Long term risk of weaker demand for COPD treatments.



Commentary

- **Decline in Smoking Rates**: With 85-90% of COPD cases historically caused by cigarette smoking, the global decline in smoking rates poses a long-term risk to COPD-related device demand.
- As smoking-related COPD cases decrease over time, driven by public health initiatives and smoking cessation trends, the overall market for COPD treatment may shrink. ResMed will need to focus on alternative growth areas or diversify its product offerings to mitigate this risk.
- ~480 million people globally suffer from COPD, and ResMed provides solutions like cloud-connected ventilators and portable oxygen. While sleep apnea remains their largest focus, treating COPD is an important operating segment but no specific percentage of cases/revenue attributed solely to COPD is known.

Overview	Business	Industry	Strategy & CA	Risks	Financials	Appendix
----------	----------	----------	---------------	-------	------------	----------

ResMed face risks from market share depletion, regulatory risks and demand related issues tied to healthcare.

Market share depletion when Phillips re-enters the medial devices market

The potential **re-entry of Philips** into the sleep apnea market poses a notable risk to ResMed. Philips, once a major player in this space, had to withdraw its sleep apnea devices from the market due to safety concerns. If Philips successfully resolves these issues and reintroduces its products, it **could intensify competition for ResMed**. Philips' return would likely bring renewed **pressure on pricing and market share**, potentially impacting ResMed's revenue and profit margins. However, ResMed's established market presence, extensive product portfolio, and **strong brand reputation could mitigate** some of these risks. The competitive landscape could become more challenging, but ResMed's continued innovation and market leadership will be crucial in maintaining its position.

Regulatory Risks

ResMed's products are subject to stringent regulations by health authorities like the U.S. Food and Drug Administration (FDA) and European regulators. Changes in regulatory policies, delays in product approvals, or stricter safety standards could slow down ResMed's product launch timelines or increase costs associated with compliance. Non-compliance with regulations could result in fines, penalties, or product bans, limiting ResMed's market access and damaging its reputation.

Recalls

The medical device industry is highly sensitive to product safety issues. Any significant recalls, like the one experienced by Philips, could tarnish ResMed's reputation, lead to loss of customer trust, and result in financial damage from lawsuits, penalties, or increased costs for addressing the problem. A recall could also disrupt sales and lead to a loss of market share as patients and healthcare providers seek alternatives.

Dependence on Prescription Requirements:

The prescription requirement for CPAP devices limits the market to individuals diagnosed by healthcare professionals. Any changes in healthcare policies regarding diagnosis or prescription requirements could affect the accessibility of these devices. For instance, if regulations make it easier for consumers to purchase CPAP devices without a prescription, ResMed may face price pressure from over-the-counter or alternative products. On the flip side, if stricter regulations are imposed, it could reduce the number of patients eligible to purchase these devices.

Health Insurance Coverage

ResMed's revenue is heavily dependent on insurance reimbursements for its sleep apnea devices. Any changes in insurance policies that reduce coverage or reimbursement rates for CPAP machines or related treatments could significantly impact sales. If healthcare providers or insurers move towards recommending cheaper alternatives, patients may opt for lower-cost options, further affecting ResMed's profitability. Additionally, changes in national healthcare policies (such as in the U.S.) could introduce uncertainty regarding how CPAP machines are reimbursed.



A first-quarter report from Philips revealed that the company would pay \$1.1 billion in litigation settlements from the Respironics class action lawsuits.

By Veronica Salib Associate Editor

ublished: 06 May 2024

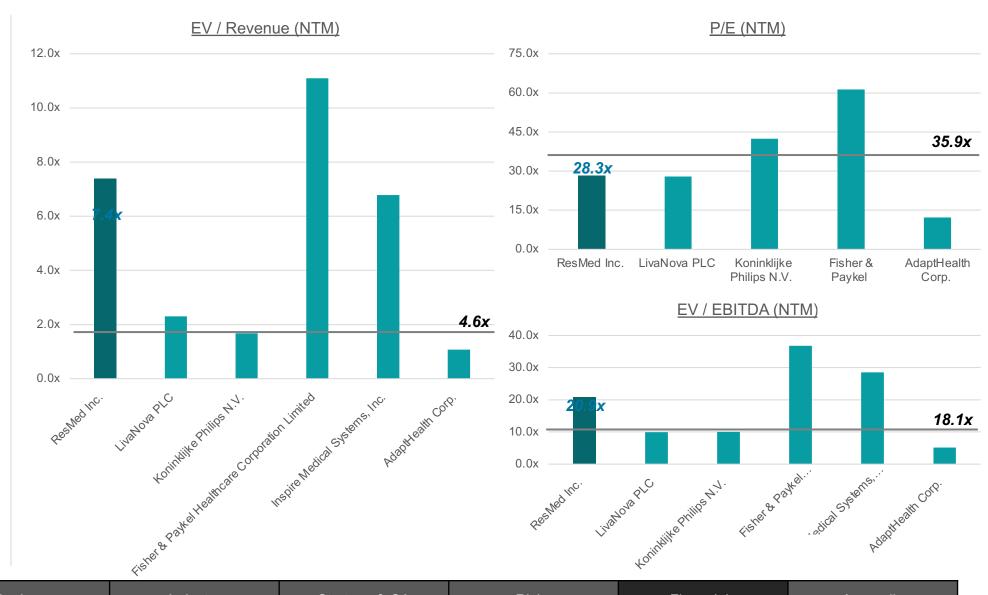
Overview Business Industry Strategy & CA Risks Financials Appendix

Valuation

Comparables valuation of ResMed reveals elevated trading multiples, likely justified by the company's superior operating model.

Key Comparables Assumptions

- Relatively small peers set due to sleep apnea device market being highly consolidated
- Assessed comparable firms in different verticals but decided not to include (unclear underlying comparability)
- All firms specialise in sleep apnea medical device solutions (ResMed, F&P), though some are more broadly diversified (Phillips, LivaNova)
- ResMed generally trades <u>above industry average</u> <u>multiples</u> – though this is likely driven by its superior operating margin (measured by margins). See next slide

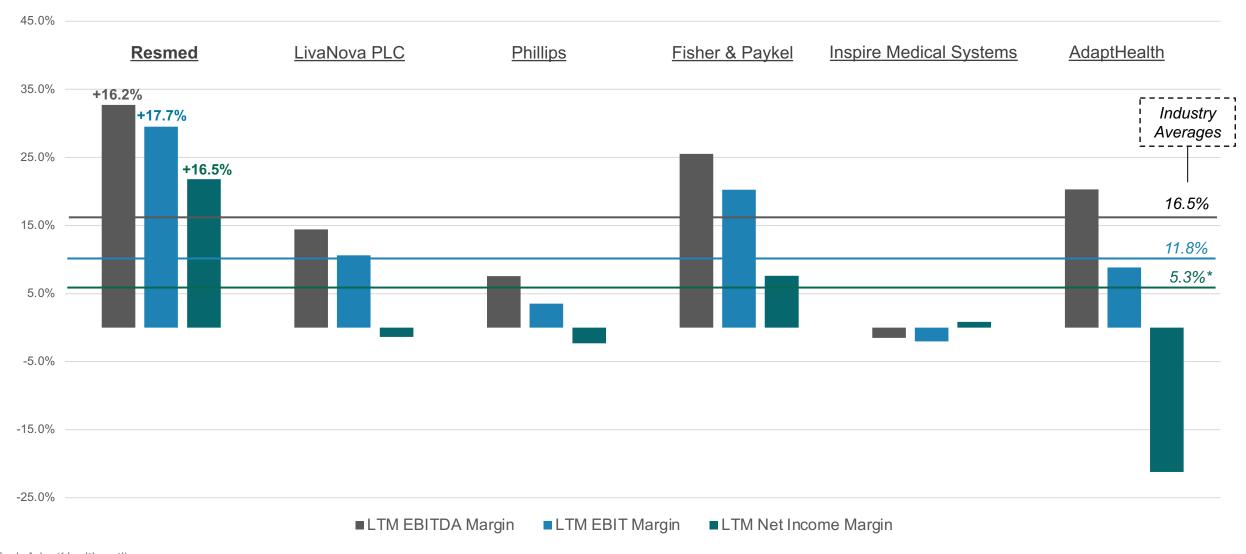


13

 Overview
 Business
 Industry
 Strategy & CA
 Risks
 Financials
 Appendix

Valuation

ResMed's high trading multiples likely reflect its superior operating model relative to peers – see LTM industry margin breakdown below



Excl. AdaptHealth outlier

Overview	Business	Industry	Strategy & CA	Risks	Financials	Appendix	
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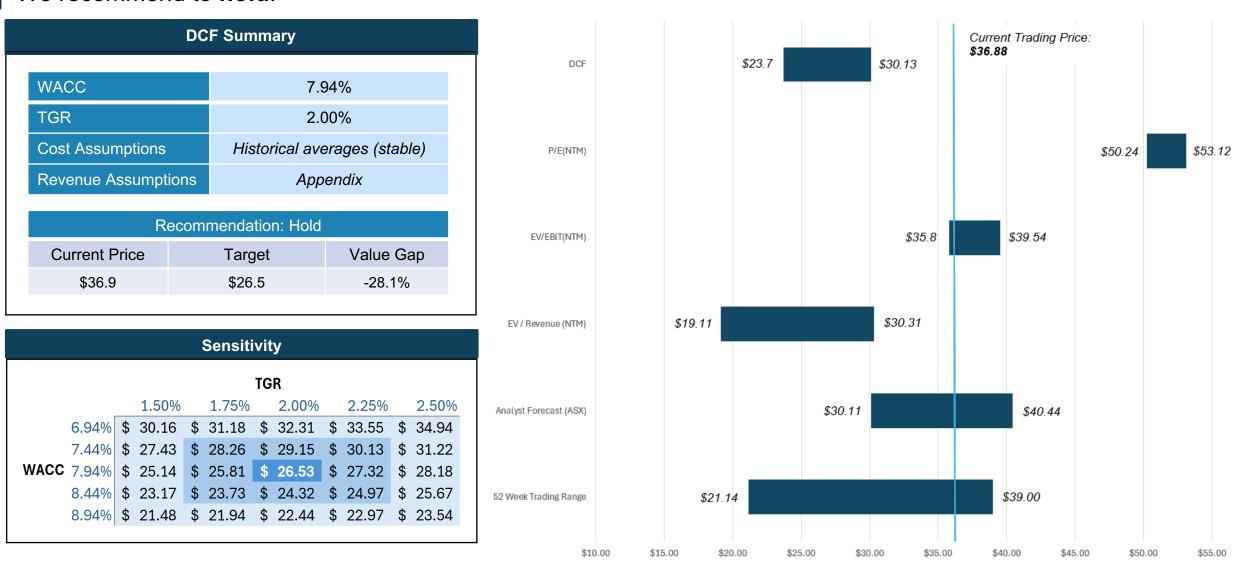
Valuation

Overview

Business

Industry

DCF, analyst forecasts and comparables analysis indicate ResMed's share price is inflated. We recommend to **hold**.



Strategy & CA

Risks

Financials

Appendix

Appendix Executive Team

Name	Background	Education
Michael "Mick" Farrell - CEO & Chair of the Board	 CEO of ResMed since 2013, joined since 2000 Chairman of the Board since Jan 2023. Was president of America region, Senior VP and other senior positions in marketing and business development. Worked in management consulting, biotech and manufacturing firms like Arthur D. Little, Sanofi Genzyme, Dow Chemical and BHP 	 Master of Science in Chemical Engineering - MIT MBA - MIT Sloan School of Management Bachelor of Engineering (First-Class Honors) - University of New South Wales
Brett Sandercock - CFO	 CFO since 2006, started at ResMed since 1998 1996-1998: manager of financial accounting and group reporting at Norton Abrasives. (Divisions of Saint-Gobain) 1994-1996: Accountant at Health Care of Australia (large private hospital) 1989-1994: Audit – PwC Australia 	Chartered Accountant (CA ANZ) Bachelor of Economics - Macquarie University
Dawn Haake - Chief Quality Officer	 CQO since 2023, joined since 2018 Has over 30 years' experience in the MedTech industry Was senior director of global quality assurance at Nuvasive (NASDAQ:NUVA) Senior specialist of quality assurance/ CAPA at Nellcor Puritan Bennett (now under Medtronic (NYSE:MDT)) 	 Bachelor's in Medical Quality Management Systems - University of Massachusetts Amherst Associate of Science in Mathematics and Science - Palomar College Humanities & Physical Science -USSC
Justin Leong - Chief Product Officer	 CPO since 2023, joined ResMed since 2013. Previously served as president of ResMed's Asia and Latin American markets. 2006-2012: Director at London-based PE firm HgCapital. 1999-2004: Management consultant with Bain & Co in Sydney, Boston and New York 	Bachelor of Laws - University of New South Wales, Sydney MBA - Harvard Business School
Carlos M. Nunez, M.D. - Chief Medical Officer	 CMO since 2017. Senior VP of Medical Affairs at Becton Dickinson and Company, leading the Office of Science, Medicine Technology for its largest Division. CMO of CareFusion & Chief Physician Executive at Picis, Inc. Prior to MedTech industry he was a practicing anaesthesiologist, intensivist and hospitalist; director of critical care research at Duke University at Carolinas Medical Center Northeast 	 Medical Doctorate - University of Miami School of Medicine Postgraduate Training in Anesthesiology, Critical Care Medicine, and Clinical Research - University of Miami

Overview Busi	ness Industry	Strategy & CA	Risks	Financials	Appendix	
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ResMed (NYSE: RMD) Valuation

TGR	2.00%
WACC	7.94%

Start date	2024-04-01	2025-04-01	2026-04-01	2027-04-01	2028-04-01	2029-04-01	2030-04-01	2031-04-01	2032-04-01	2033-04-01
End date	2025-03-31	2026-03-31	2027-03-31	2028-03-31	2029-03-31	2030-03-31	2031-03-31	2032-03-31	2033-03-31	2034-03-31
Financial year	FY2025E	FY2026E	FY2027E	FY2028E	FY2029E	FY2030E	FY2031E	FY2032E	FY2033E	FY2034E
Adjusted Unlevered Free Cash Flows	1,656,387	1,544,840	1,725,398	1,914,650	2,109,677	2,298,520	2,475,491	2,651,069	2,814,956	2,971,687
Terminal Value										51,028,966
Discount period	0.392	1.373	2.373	3.3 <i>7</i> 3	4.375	5.3 <i>7</i> 5	6.3 <i>7</i> 5	7.375	8.378	9.3 <i>7</i> 8
Discount factor	0.971	0.900	0.834	0.773	0.716	0.663	0.614	0.569	0.527	0.488
Present Value of Free Cash Flows	1,607,539	1,391,033	1,439,331	1,479,715	1,510,189	1,524,338	1,520,940	1,509,001	1,484,112	1,451,495
Present Value of Terminal Value										24,924,667

Sum of PV of FCF	14	1,917,694
PV of Terminal Value	24	1,924,667
Enterprise Value	39	9,842,361
Add Cash		357,255
Less Debt		1,257,129
Equity Value	3	8,942,487
Shares outstanding		1,467,447
Implied Share Price	\$	26.54
Current Share Price	\$	36.88
Fair Value Gap		-28.0%

Strategic capital allocation framework

