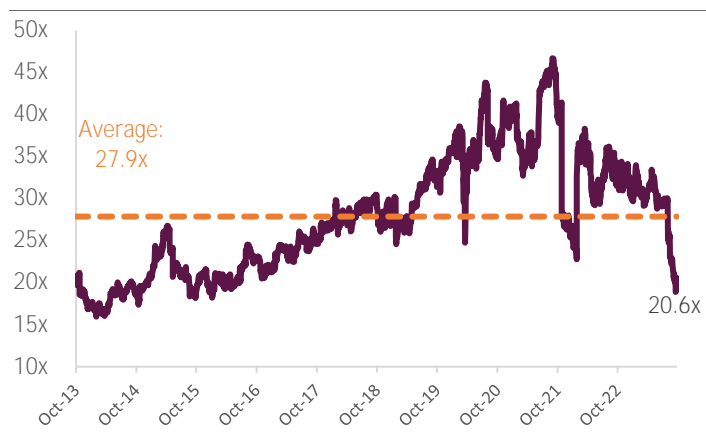


GLP-1 concerns and valuation

ResMed has historically traded on a forward multiple of 28x PE but is currently trading on less than 21x PE due to market concerns about GLP-1 market.

Figure 2 ResMed NTM Rolling PE



GLP-1 drugs (branded as Ozempic, Wegovy and Mounjaro) act by mimicking hormones that are released into the gastrointestinal tract in response to eating. These drugs were initially developed to target type 2 diabetes by stimulating more insulin production but have evolved to potential applications in weight management and cardiovascular indications. Given obesity is a key risk factor for OSA (see Figures 3 and 4), there is a view that significant weight reduction from taking GLP-1s may result in reduced demand for CPAP therapy.

Figure 3 OSA severity by AHI (<5 mild) and (>15 moderate)

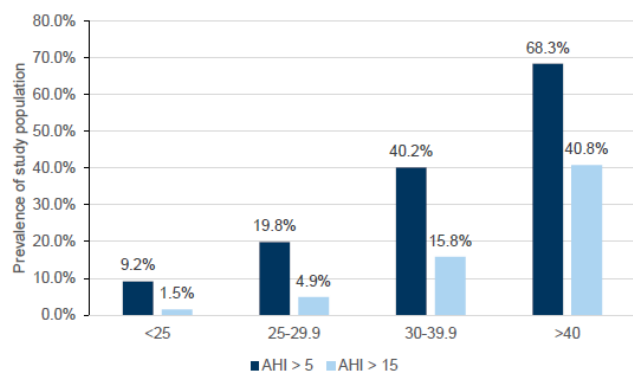
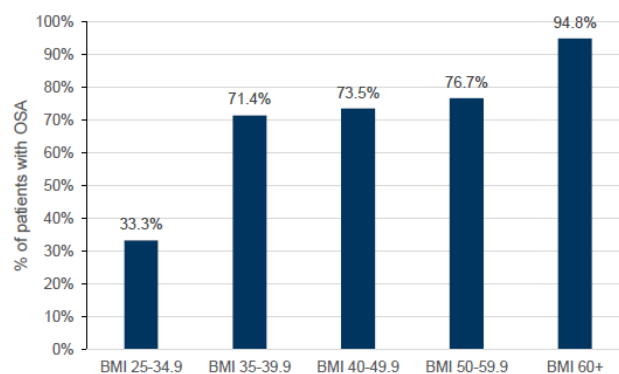


Figure 4 Prevalence of sleep apnoea in morbidly obese patients who presented for weight loss surgery evaluation



Source: Goldman Sachs Research

While we are not medical experts, we consider the significant de-rate to be an overreaction for the following reasons:

GLP-1 drugs have been around for almost a decade in managing blood sugar, and other competing therapies such as oral devices and bariatric surgery have not been able to displace CPAP as the standard of care. We note CPAP also has the advantage of being able to track patient adherence and compliance through cloud-connected devices. We believe this data is valuable to third-party payors.

While we acknowledge weight gain is a leading risk factor in developing OSA, it is not the only cause. Based on our conversations with sleep physicians and the company we estimate one-third of OSA patients are not obese. While the remaining two-thirds of the patient pool is highly likely to test GLP-1 drugs (as they

expect adherence to be 100% given the potential for side effects such as nausea and the impact on lifestyle.

-1s to fully eliminate OSA in all cases (the drugs may simply reduce severity). As a

scenario where a combination of GLP-1 drugs and CPAP therapy are prescribed as treatment.

Finally, these drugs with an average retail price of ~US\$1,000/month are currently unaffordable for most patients. Pricing will need to come down significantly to attract broader reimbursement and mass adoption.

Conclusion

Overall, we think the uncertainty as to the potential penetration and success of these drugs in treating OSA has created a rare opportunity to invest in one of the highest quality companies on the ASX. While we are unlikely to pick the bottom, we believe the company is trading well below its intrinsic value.

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