



## No Tossing or Turning for **ResMed, Inc. (NYSE: RMD)** Investors After the Fourth Quarter December 31, 2009 Earnings Report

### **ResMed, Inc. Announces Record Financial Results for the Quarter Ended December 31, 2009**

SAN DIEGO, Feb. 04, 2010 /PRNewswire via COMTEX/ -- **ResMed, Inc. (NYSE: RMD)** today announced record revenue and income results for the quarter ended December 31, 2009. Revenue for the December 2009 quarter was \$275.1 million, a 23% increase (a 17% increase on a constant currency basis) over the quarter ended December 31, 2008. For the quarter ended December 31, 2009, income from operations was \$57.9 million and net income was \$46.0 million, an increase of 34% and 36%, respectively, compared to the quarter ended December 31, 2008. Diluted earnings per share for the quarter ended December 31, 2009 were \$0.60, an increase of 36% compared to the quarter ended December 31, 2008.

**ResMed's** report sparked a sharp rise in its stock price, as **RMD** jumped to \$54.90 at the close of trading on February 5, up \$3.97 from its February 4 close.

Our thinking behind **ResMed** is the same common-sense thinking that drives all of our decisions that affect your money. We have criteria that shape our investment strategy, criteria which **ResMed** exemplifies. **We choose companies:**

- **whose business we understand.** We want to understand what it is a company does and what effect it has on the consumer. **ResMed** makes machines that dramatically improve the lives of people such as myself who suffer from sleep apnea.
- **that focus on one concept.** These companies do one thing and do it well, rather than stretching themselves thin by dabbling in too many fields. **ResMed's** sole business is making sleep machines and masks that open the throat's passageway to fight sleep apnea.
- **that have little or no long term debt.** Every quarter, **ResMed** produces a tremendous amount of cash even after the company makes its capital expenditures; the company is also blessed with cash flow from its short-term holdings that dramatically exceeds any interest expense it must pay. In fact, because of its excess cash flow, **ResMed** is continually in the market buying back its stock.

**ResMed's** enviable cash flow stands in stark contrast to the situation in which **Merrill Lynch**<sup>1</sup> and **Lehman Brothers**<sup>2</sup> found themselves in 2008, a situation described powerfully by **Andrew Ross Sorkin** in his book *Too Big to Fail*.<sup>3</sup> **Merrill Lynch** and **Lehman Brothers**, with debt-to-equity ratios of 25 to 1, were forced to rely every night on funding from their banks to open their doors the next day.

Remember: it is impossible to have too much cash, and the value of a debt-free balance sheet can never be exaggerated. Cash is king (unless, as the three highly intelligent women who work at our firm, **Meredith Bohot**, **Michelle Hennessy**, and **Katie Michaels-Johnson**, say, cash is queen). Whatever gender cash is, we sometimes forget in our credit card culture that cash is a wonderful asset to have, and **ResMed** has plenty of it.

<sup>1</sup> Bank of America (NYSE: BAC) acquired **Merrill Lynch** in 2008.

<sup>2</sup> **Lehman Brothers, Inc.** filed for bankruptcy protection in the United States on September 15, 2008.

<sup>3</sup> **Sorkin, Andrew Ross.** *Too Big to Fail: The Inside Story of How Wall Street and Washington Fought to Save the Financial System---and Themselves.* New York: Viking Penguin, 2009.

- **that enjoy a significant and increasing market share.** ResMed enjoys a forty-three percent global market share and has increased its global market share every year for the last decade.
- **that enjoy significant barriers to entry.** It should be difficult for competitors to break into the field and compete on the same level as the established company. ResMed's annual spending on research and development is significant, and it enjoys powerful relationships with the doctors, hospitals, and sleep labs that promote its products, relationships that would be difficult and time-consuming for a competitor to successfully create.

Finally, if possible, we choose companies **with whose products I have had significant experience, but only, of course, if this experience has been positive.** Last September, I spent a night in The Sleep Disorders Center at **St. John Medical Center** and underwent a polysomnogram. My doctors diagnosed me with sleep apnea, and I was outfitted with a **ResMed** mask and a Continuous Positive Airway Pressure (CPAP) machine, both of which I have found to be quality products.

My sleep, although still not perfect—what would you expect from a personality that is driven, competitive, and blessed and cursed with the continuous need to embrace, analyze, and synthesize ideas and to get up in the middle of the night and scrawl such ideas on a pad beside my bed—has improved dramatically since I have been using my machine and mask.

As of the close of business on **February 12, 2010**, clients and employees of our firm owned **51,850 shares** of **ResMed**, with a market value of **\$2,873,173**. This works out to a **value per share of \$55.41**, while our average purchase **cost per share is \$48.18**.

Sleep apnea remains an unadmitted and unrecognized problem. There are plenty of opportunities left for **ResMed**, and the stock price over the coming years ought to reflect these opportunities.

Sincerely,



Fredric E. Russell

#### **Notes:**

We may liquidate, decrease, or increase our position in **ResMed, Inc.** at any time, without notice before or after we do so.

The writer of this report, **Fredric E. Russell**, lists his academic and professional background as follows: **B.A., Swarthmore College**, Swarthmore, PA; **M.B.A. and M.A., Washington University**, St. Louis, MO. He also holds the **CPA certificate** and has taught accounting and finance at three universities. He believes his love for writing and his usually correct grammar come from spending four years learning the English language at **Deerfield Academy** in Deerfield, MA, and from reading everything well-written he can find.

You may read more about us, find other investment letters, and see the details of our record on our website: [www.fredricerussell.com](http://www.fredricerussell.com).