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RMD.N - Q3 2021 Resmed Inc Earnings Call

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OVERVIEW:

Co. reported 3Q21 revenues of \$769m, GAAP net loss of \$78m and GAAP diluted loss per share of \$0.54. Expects 4Q21 revenues to grow low-single digit over 3Q21.

CORPORATE PARTICIPANTS

Amy Wakeham *ResMed Inc. - VP of IR & Corporate Communications*

Brett A. Sandercock *ResMed Inc. - CFO*

David B. Pendarvis *ResMed Inc. - Chief Administrative Officer, Global General Counsel & Corporate Secretary*

James R. Hollingshead *ResMed Inc. - President of Sleep & Respiratory Care Business*

Michael J. Farrell *ResMed Inc. - CEO & Director*

Robert A. Douglas *ResMed Inc. - President & COO*

CONFERENCE CALL PARTICIPANTS

Andrew Goodsall *MST Marquee - Healthcare analyst*

Anthony Charles Petrone *Jefferies LLC, Research Division - Healthcare Analyst*

David A. Low *JPMorgan Chase & Co, Research Division - Research Analyst*

Gretel Janu *Crédit Suisse AG, Research Division - Research Analyst*

Lyanne Harrison *BofA Securities, Research Division - VP*

Malgorzata Maria Kaczor Andrew *William Blair & Company L.L.C., Research Division - Partner*

Matthew Ian Mishan *KeyBanc Capital Markets Inc., Research Division - VP & Senior Equity Research Analyst*

Michael Stephen Matson *Needham & Company, LLC, Research Division - Senior Analyst*

Sean M. Laaman *Morgan Stanley, Research Division - Australian Healthcare Analyst*

Suraj Kalia *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

PRESENTATION

Operator

Welcome to the Q3 Fiscal Year 2021 ResMed Earnings Conference Call. My name is Celine, and I will be your operator for today's call. (Operator Instructions) Please note that this conference is being recorded.

I will now turn the call over to Amy Wakeham, Vice President of Investor Relations and Corporate Communications. Amy, you may begin.

Amy Wakeham - *ResMed Inc. - VP of IR & Corporate Communications*

Great. Thank you, Celine. Hello, everyone, and welcome to ResMed's Third Quarter Fiscal Year 2021 Earnings Call. We appreciate you joining us. This call is being webcast live, and the replay will be available on the Investor Relations section of our corporate website later today, along with a copy of the earnings release and presentation, both of which are available now.

With me on the call today are CEO, Mick Farrell; and CFO, Brett Sandercock. Other members of our management team will be available during the Q&A portion, following our prepared remarks.

During today's call, we will discuss some non-GAAP measures. For a reconciliation of the non-GAAP measures, please review the notes in today's earnings press release or in the appendix of the earnings presentation. As a reminder, our discussion today may include forward-looking statements, including, but not limited to, expectations about ResMed's future performance. We believe these statements are based on reasonable assumptions,

however, our actual results may differ. You are encouraged to review our SEC filings for a discussion of the risk factors that could cause our actual results to differ materially from any forward-looking statements made today.

I'd like to now turn the call over to Mick.

Michael J. Farrell - *ResMed Inc. - CEO & Director*

Thanks, Amy, and thank you to all of our shareholders for joining us today as we review results for the March quarter, the third quarter of our fiscal year 2021.

On today's call, I'll provide a high-level overview of our Q3 business metrics, and then I'll hand the call over to Brett for further detail on our financial results. I will review progress towards ResMed's 2025 strategic goals, including execution highlights against our quarterly and our annual operating priorities.

A year ago today, when we discussed our March 2020 results, we were only just beginning to understand the scope of the COVID-19 pandemic. Much of our business, particularly in the United States, had not yet been significantly impacted. However, outside the U.S., countries including China and Italy were already in the midst of emergency needs. We quickly mobilized our supply chain and global operations to address and support ventilation needs worldwide, producing over 150,000 ventilators. We accelerated the production and distribution of noninvasive and life support ventilators and mask systems to those in need, resulting in an incremental \$35 million of COVID-related revenue during the March 2020 quarter.

I'm incredibly proud of how we quickly pivoted our business to meet that need, providing life-saving solutions around the world so that healthcare systems were prepared with the resources needed to treat patients who are fighting COVID-19.

Today, one year later, the countries we operate in are at various different stages of the post-COVID peak recovery process in terms of getting to normal patient flow. We see a range of -- from 70% of pre-COVID patient flow in some countries, up to 90% of pre-COVID patient flow in other countries.

Vaccines are steadily rolling out in the United States, the U.K. and many other countries worldwide. We still see significant impact from ongoing second, third and fourth waves of infection in some countries in Europe as well as in South America and Asia, and especially right now in the country of Brazil and in particularly India. Our team is working with hospitals and healthcare providers in those 2 countries and beyond for preservation of life, making sure that they have ventilators, masks and the training that they need to use them.

We continue to support the frontline respiratory therapists and the physicians who are there on the ground as well as providers, patients and ResMedians throughout the 140-plus countries that we operate in.

We're pleased with the steady progress that we are seeing in getting new sleep apnea, COPD and asthma patients diagnosed. Excluding the \$35 million of COVID-related ventilator sales in the March 2020 quarter, our team delivered positive sales growth across our core sleep apnea and respiratory care business this quarter on both the headline and constant currency basis.

We forecast a steady improvement trend of patient flow for sleep apnea and COPD and asthma continuing as we move through 2021 and into 2022. We expect this progress to accelerate as global vaccination rates continue. We are encouraged to see that patients, physicians and providers around the world are adopting digital health tools for remote patient screening, home-based testing, remote patient monitoring and ongoing patient management.

I'd like to be clear that the ventilation sales that we made in 2020 will be part of our comparables for the next 2 quarters. In the June 2020 quarter, we recognized \$125 million in COVID-related ventilator sales. And in September 2020 quarter, we recognized \$40 million in such revenue.

Over the coming quarters, we expect to continue to show strong positive year-over-year revenue growth excluding these onetime sales from 2020. As we look further forward, we see a clear path to double-digit revenue growth in the back half of our fiscal year 2022 across our full business, powered by opening economies and our pipeline of new technology and innovation.

Our headline results were impacted this quarter by an accounting reserve we took in connection with discussions with the Australian Tax Office, or ATO, regarding their ongoing audit dating back to fiscal year 2009. Brett has been leading those discussions and will speak to the details in his remarks.

I will make this statement: ResMed pays significant taxes in countries around the world, and we operate in over 140 countries, helping people sleep better, breathe better and live better lives well away from the hospital. Brett and his team are working towards a final resolution of these transfer pricing discussions dating back over 12 years with the ATO. So we have taken this \$255 million reserve. We believe that resolving these discussions is the pragmatic thing to do for all of our stakeholders so that we can put this behind us and focus all of our efforts on our core mission of improving lives in respiratory medicine around the world.

During the third quarter of fiscal year 2021, we generated over \$196 million in operating cash, allowing us to return \$57 million in cash dividends to shareholders. We also increased our R&D investments in the period in digital health technology as well as R&D for hardware, embedded software and clinical research while maintaining financial discipline with reduced SG&A and other operating costs.

We have seen increased demand for our digital health solutions from patients, physicians, providers and healthcare systems around the world as they embrace remote patient engagement and adopt population health management. We are the clear leader in this field with over 14 million cloud-connectable medical devices in the market. And our ongoing and increasing investments in digital health innovation will ensure we provide superior value to patients, physicians and providers to be their partner of choice.

We don't take our leading market share position for granted. We fight for it every day through innovation.

Our digital technologies are a growth catalyst for our business. We have an exciting pipeline of innovative solutions that will generate both medium and long-term value, with an industry-leading IP portfolio, including over 8,000 patents and designs. We now have over 8.5 billion nights of respiratory medical data in our cloud-based platform called Air Solutions. We have over 15.5 million patients enrolled in our cloud-based AirView software solution. And we also have over 105 million patients managed within our Software as a Service network for out-of-hospital healthcare. These incredible data assets allow us to unlock value for all of our customers, patients, physicians, providers as well as private and government payers.

Let me take a few minutes to share some recent clinical highlights that show how we are working with researchers to advance the field of sleep and respiratory medicine with these data and beyond.

During 2020, an important 30-year duration study was published in the European Respiratory Journal, following over 4,500 diagnosed OSA patients to better understand the long-term impacts of untreated sleep apnea. The study showed that untreated sleep apnea leads to high incidence of myocardial infarction or heart attack, high incidence and prevalence of type 2 diabetes, and high incidence of ischemic heart disease. This real-world clinical analysis is showing that what we've known for over 3 decades: sleep apnea is a public health epidemic that simply can't be ignored.

In terms of clinical quality of life improvement from CPAP therapy, the data are also clear. In late 2019, the multicenter, randomized controlled trial called MERGE, was published in the journal, Lancet Respiratory Medicine. The results were that patients randomized to CPAP demonstrated clear improvement in quality of life for CPAP patients versus standard of care with symptomatic benefits, including reductions in sleepiness as well as improvements in fatigue and importantly, depression, a key part of mental health. Importantly, these results were evident in both mild as well as moderate and severe sleep apnea.

In terms of economic data and a dose-response relationship from CPAP therapy, the data are also unequivocal. In 2019, a study was published in the Journal of Clinical Sleep Medicine showing a quantified dose response relationship from CPAP therapy. So for every additional hour of positive airway pressure use, there was an 8% decrease in hospital inpatient visits and a 4% decrease in overall physician visits. In other words, treating

sleep apnea with our CPAP therapy not only improves lives, it also saves money for the healthcare system by lowering total healthcare utilization costs.

During the quarter, we saw the publication of a draft technology assessment from the Agency for Healthcare Research and Quality, or AHRQ, here in the U.S. market. AHRQ sort input and ResMed-filed public comments, along with comments from many physician groups, sleep apnea patient advocates, provider groups and beyond. I won't repeat all the details of those public comments, but I will say this, we presented peer-reviewed and published data showing that CPAP therapy improves quality of life, reduces healthcare costs and even reduces mortality.

In short, these data prove that in partnership with our physician and provider colleagues in the market, we are saving lives and saving money for the healthcare system through our medical technology. We have peer-reviewed and published data showing that a reduction in incidence of heart attack, a reduction in hypertension as well as a reduction in the incidence of solid cell cancer tumors. All of these are logical sequelae of the elimination of hypoxia that is associated with CPAP therapy in treated sleep apnea patients.

We are encouraged by technical studies completed by the National Institute of Clinical Effectiveness, the acronym is NICE, in the U.K. Just last month, NICE made public their 2021 draft guidelines that recommend that CPAP therapy, along with telemonitoring, is the frontline treatment option for patients with mild OSA. That would be an expansion of coverage in the U.K. and also an expansion of the use of digital health technology in that market.

Similarly, the Ministries of Health in France, Germany and Japan have seen the value of digital health in sleep apnea therapy and have begun investing reimbursement funds in this space. It's great to see this expansion of coverage for sleep apnea therapy and digital health around the world as governments see improvement in outcomes and reductions in total healthcare system costs with this technology.

While we respect the work of AHRQ, we, along with many other academic research-focused institutes and practicing physician groups, believe that they bypassed a generation of data in real-world evidence that needs to be taken into account, along with their own select group of RCTs in the draft report. We are optimistic that the final report when issued will reflect the preponderance of real-world evidence and broader RCTs, showing both the clinical and economic benefits of treating sleep apnea with positive airway pressure.

Okay. Let me now update you on our top-3 ResMed strategic priorities. These are: one, to grow and differentiate our core sleep apnea, COPD and asthma businesses; two, to design, develop and deliver world-leading medical devices as well as globally scalable digital health solutions; and three, to innovate and grow the world's best software solutions for care delivered outside the hospital and preferably, in a person's home.

In our core market of sleep apnea, we continue to see sequential improvement in new patient diagnosis trends as we seek to provide solutions for the 936 million people worldwide who suffocate every night. The rate of new patients starting sleep apnea therapy in the U.S. was impacted by the typical seasonality that we see in the March quarter, primarily as a result of insurance deductibles resetting at the start of each calendar year. This seasonal impact affects devices more than mask systems, given the incremental cost of diagnosis and the relative price points of the 2 categories.

We expect sequential growth in sleep and respiratory care as we move past this typical seasonality. We continue to see strong ongoing mask and accessory resupply in the U.S. market and beyond.

New patient flow during the quarter was impacted by the recent COVID-related case surges in select countries in Asia and Europe, including 2 large markets, France and Germany. We see that impact the number of patients going for clinic-based diagnosis pathways in these affected countries. We expect to see these markets reopen, along with hospitals, as vaccines continue to roll out and as we see further scaling of the remote home-based diagnostic capacity.

Clearly, the kinetics of opening of these economies and the rate of vaccination rollout are beyond our control. However, we can control our investments in digital solutions for our physician and provider partners, which we are doing at increasing velocity and with scalable systems and processes.

More broadly, we are seeing growth in total sleep -- total new sleep apnea, COPD and asthma patient flow. And we expect to see this improve over time in our portfolio of 140 country markets each quarter. Importantly, our market-leading share position has remained stable across both masks and devices, and we're excited about our future pipeline. We rarely talk about our future pipeline as those who have followed us for a period of time know. But today, I would like to open up the curtain just a little bit on our next-generation sleep apnea platform.

You may have seen some recent U.S. regulatory filings that we made for our next-generation flow generator platform called the AirSense 11. Clearly, there are multiple steps in the process to bring this new platform to global markets and these public regulatory filings are simply one important step, but we are making good progress. Earlier this month, we started a limited controlled product launch of the AirSense 11 in certain parts of the United States. We expect to move to a broader commercial launch of the platform later this calendar year in the U.S. and then to country markets worldwide in sequence after that.

For now, I can say that as a personal user of our CPAP therapy, I have firsthand knowledge that the AirSense 11 device will benefit patients and their bed partners. And our early data show that the device and software platform combination will benefit physicians, providers, payers and beyond, and ultimately continue to catalyze ResMed's global leadership in digital health solutions for sleep apnea and then also accelerate our success in digital health solutions for COPD, asthma and other key chronic diseases.

We make the smallest, quietest, smartest and the most comfortable devices on the market. Importantly, they are all cloud connectable with the latest and greatest digital health technology to increase adherence, improve clinical outcomes and deliver proven cost reductions within our customers' own healthcare systems.

Let me turn now to a discussion of our respiratory care business, focusing on our strategy to better serve the 380 million COPD, or chronic obstructive pulmonary disease, patients and the 340 million asthma patients worldwide. Our goal is to reach more patients with our core respiratory care solutions, including both noninvasive ventilation and life support ventilation as well as newer therapeutic areas, such as cloud-connected pharmaceutical drug delivery devices and high flow therapy devices.

Our respiratory care business benefited in the March 2020 quarter as we sold incremental ventilated devices and ventilation mask solutions to meet growing demand worldwide as a result of the pandemic. During the March 2021 quarter, COVID-related ventilator sales were not material to the global business. However, we are seeing some demand in select countries affected by these latest COVID surges, such as just this month with the surge in India. We're getting many thousands of devices to those in need. The demand is there in that country.

But as in Q3, we do not expect the revenue to be material to our global business, even though the broader impact, particularly with preservation in life in these countries is clearly priceless and incredibly important to not only our local team in India, but to all of us here at ResMed worldwide.

Demand for our core noninvasive ventilator and life support ventilator solutions for COPD and other respiratory insufficiency are experiencing the same steady recovery in new patient flow as in sleep apnea. We are balancing the growth in patient demand there with the supply of ventilators that we made to the market throughout 2020 as customers balance their inventory and their core ongoing patient needs.

We continue to see rapid adoption of the AirView for Ventilation software solution that we launched in Europe in the midst of the pandemic this time a year ago. We are now seeing that this technology has expanded to regions around the world. The value being provided through this cloud-based software solution has been fruitful not only during the COVID pandemic and the peak parts of the crisis, but it's also valuable on an ongoing value basis for physicians as well as the healthcare systems they operate in. We are helping to ensure that digital health is now the new standard of care for respiratory care.

Let me now review our Software as a Service business for out-of-hospital care. During the quarter, our SaaS business grew in the mid single-digits year-on-year across our portfolio of markets. The verticals include home medical equipment, or HME, skilled nursing facilities, home health, hospice, private duty home care, home infusion, senior living and life plan communities.

Our HME customers are leveraging our advanced resupply solutions, including Snap technology and Brightree ReSupply for our existing portfolio of patients. And they are contributing to ongoing growth as the flow of new patients in HME continues to recover steadily period by period.

Over the past 12 months, COVID-19 has had a dampening effect on elective and emergent procedures at hospitals, as we all know, and that has slowed hospital discharge rates affecting patient flow and ultimately, the census rates at skilled nursing facilities, home health, hospice and beyond. As the rate of vaccinations accelerate across the U.S. and the number of COVID-19 cases continues to trend downward in this country, we're seeing improvements in the census rates across skilled nursing facilities, home health, hospice and across all post-acute care settings.

In addition to the solid organic growth that we are seeing in our SaaS business, we closed an exciting acquisition just this month. The company is called Citus Health. Citus is a digital health leader specializing in patient engagement solutions for home infusion and specialty pharmacy as well as for home health and hospice markets. Citus enhances the patient experience, and it also improves provider efficiency and reduces the workload for frontline clinicians and caregivers.

We are excited to have the Citus team as part of the ResMed family of solutions and to leverage their digital collaboration and patient support platform in our mission to improve patients' lives outside the hospital. I'm very impressed by the breadth and depth of talent at Citus and their passion for patient care. This goes from their CEO and Co-Founder all the way to the frontline. We're very excited to have them join our team, and we will be better together.

As we look across our portfolio of solutions from Brightree to MatrixCare to now Citus including HME, specialty pharmacy, home infusion, skilled nursing facilities, home health, hospice, senior living, life plan communities and private duty home care, we expect this portfolio, this SaaS portfolio of revenue growth to accelerate, increasing from mid-single-digit growth that we saw in this quarter to high single-digit growth as we move forward.

As always, our goal is to meet or beat the sort of market average growth rates, and we continue to take share across the verticals that we're in. We also see opportunity to drive growth through further acquisitions that will augment and add to our existing portfolio of solutions. Our offerings are very well received in each of these verticals, and we continue to see and leverage analytics and the technology that we have across our core business and the SaaS business to help people age in place and minimize or eliminate acute care episodes.

Looking at the broader ResMed portfolio of business across sleep and respiratory care as well as our Software as a Service solutions, we remain confident in our long-term strategy and our pipeline of innovative solutions. Our mission to improve lives, drives and motivates ResMedians across the world every day. COVID has highlighted and continues to highlight the importance of respiratory health and respiratory hygiene. It has highlighted also the importance of digital health and remote care, and it has also accelerated awareness and adoption of technologies that can be used for remote patient screening, diagnosis, setup as well as remote patient management and monitoring.

We have continued to invest aggressively in R&D and innovation to ensure our solutions are best in class and are a catalyst for future growth. With over 1.5 billion people around the world suffering from sleep apnea, COPD and asthma combined, we see incredible opportunities for greater identification, enrollment and engagement of people with our digital health pathways. We are relentlessly driving innovation and development to provide the scale needed to expand the impact of this technology across the 140 countries that we operate in.

Before I hand the call over to Brett for his remarks, I want to once again express my sincere gratitude for the more than 7,500 ResMedians for their perseverance, hard work and dedication during these most unusual circumstances these last 15 months. This team has helped save the lives literally of many hundreds of thousands of people around the world with ventilators with these emergency needs. The team is now rapidly pivoted back to our core markets and our core purpose of helping people with sleep apnea, COPD and asthma. And for all those who need world-class care delivered well away from the hospital and preferably in their own home.

Thank you. With that, I will now hand the call over to Brett in Sydney, and then we will move to Q&A. Brett, over to you.

Brett A. Sandercock - ResMed Inc. - CFO

Great. Thanks, Mick. In my remarks today, I will provide an overview of our results for the third quarter of fiscal year 2021 and comment on our FY '22 outlook. Unless noted, all comparisons are to the prior year quarter.

Group revenue for the March quarter was \$769 million, which is consistent with the prior year quarter. In constant currency terms, revenue decreased by 3% compared to the prior year quarter.

Consistent with our prediction during the Q2 earnings call, we derived negligible incremental revenue from COVID-19 related demand in the March quarter, whereas our prior year Q3 revenue included an incremental benefit from COVID-19 related sales of approximately \$35 million. Excluding these impacts, our Q3 FY '21 revenue increased by 1% in constant currency terms.

Taking a close look at our geographic distribution and excluding revenue from our Software as a Service business, our sales in U.S., Canada and Latin America countries were \$403 million, an increase of 2%. Sales in Europe, Asia and other markets totaled \$272 million, a decrease of 5% or a decrease of 13% in constant currency terms.

By product segment, U.S., Canada and Latin America device sales were \$193 million, a decrease of 2%. Masks and other sales were \$210 million, an increase of 7%. In Europe, Asia and other markets, device sales totaled \$173 million, a decrease of 11% or in constant currency terms, an 18% decrease. Masks and other sales in Europe, Asia and other markets were \$99 million, an increase of 9% or flat year-over-year in constant currency terms.

Globally, in constant currency terms, device sales decreased by 10%, while masks and other sales increased by 4%. Excluding the impact of COVID-19 related sales in the prior year quarter, global device sales declined by 3% in constant currency terms, while masks and other sales increased by 6% in constant currency terms. Software as a Service revenue for the third quarter was \$94 million, an increase of 5% over the prior year quarter.

During my commentary today, I will be referring to non-GAAP numbers. We have provided a full reconciliation of the non-GAAP to GAAP numbers in our third quarter earnings press release.

Our non-GAAP gross margin decreased by 40 basis points to 59.6% in the March quarter compared to 60% in the same quarter last year. The decrease is predominantly attributable to higher freight costs, additional manufacturing costs associated with the transition to our new Singapore site with commenced operations during the quarter and geographic mix changes.

Moving on to operating expenses. Our SG&A expenses for the third quarter were \$160 million, a decrease of 7%, or in constant currency terms, SG&A expenses decreased by 11% compared to the prior year period. SG&A expenses, as a percentage of revenue, improved to 20.9% compared to the 22.4% we reported in the prior year quarter, benefiting from cost management and reduced travel as a result of COVID-19 restrictions. Looking forward, we expect SG&A expenses in Q4 FY '21 to increase in the low single-digits relative to the prior year period.

R&D expenses for the quarter were \$56 million, an increase of 9%, on a constant currency basis, an increase of 3%. R&D expenses as a percentage of revenue was 7.3% compared to 6.7% in the prior year. Looking forward, we expect R&D expenses in Q4 to increase year-over-year in the high single-digits, reflecting our long-term commitment to innovation.

Total amortization of acquired intangibles was \$18 million for the quarter and stock-based compensation expense for the quarter was \$16 million. Our non-GAAP operating profit for the quarter was \$242 million, an increase of 2%, reflecting well-contained operating expenses.

For the March quarter, we estimated and recorded an accounting tax reserve of \$255 million, which is net of credits and deductions for a proposed settlement of transfer pricing audits by the Australian Taxation Office, or ATO. The audits covered tax years 2009 to 2018. As previously disclosed, for 2009 to 2013, the ATO issued assessments of \$266 million, inclusive of penalties and interest. The 2014 to 2018 year audits remain open, ongoing and assessments have not been issued.

We have tentatively agreed on a number with the ATO to result in the entire matter for all audit years. We expect any adjustments to the reserve we have taken this quarter would be immaterial. Next steps include getting to a written agreement and final board approval.

If the deal falls apart, we will litigate. We continue to believe we are more likely than not to succeed in litigation. However, transfer pricing litigation is complex, costly and uncertain. So we are looking forward to putting this behind us.

As a result of recording the reserve, on a GAAP basis, our effective tax rate for the March quarter was 136%. While on a non-GAAP basis, which excludes the reserve, our effective tax rate for the quarter was 19.4%. Looking forward, we estimate our underlying non-GAAP FY '21 effective tax rate will be in the range of 17% to 19%.

Our non-GAAP net income for the quarter was \$190 million, an increase of 1%. Non-GAAP diluted earnings per share for the quarter were \$1.30, an increase of 1%. As a result of the tax reserve recorded this quarter, our GAAP net loss for the quarter was \$78 million and our GAAP diluted loss per share for the quarter was \$0.54.

Cash flow from operations for the quarter was \$196 million, reflecting solid underlying earnings, partially offset by increases in working capital. Capital expenditure for the quarter was \$26 million. Depreciation and amortization for the March quarter totaled \$40 million. During the quarter, we paid dividends of \$57 million.

We recorded equity losses of \$5 million in our income statement in the March quarter associated with the Verily joint venture. And going forward, we expect to record equity losses in the range of \$3 million to \$5 million per quarter associated with the Verily joint venture. We ended the third quarter with a cash balance of \$231 million. At March 31, we had \$734 million in gross debt and \$503 million in net debt. Our debt levels remain modest. And at March 31, we had a further \$1.5 billion available for drawdown under our existing revolver facility.

In summary, our liquidity position remains strong. During the third quarter, we completed the acquisition of Citus Health. Citus Health is a digital health leader specializing in patient engagement solutions that enable real-time secure collaboration between patients and those involved in their care. We also acquired certain business assets of Tong-ill Medical Company based in Korea, which primarily represented Tong-ill's sleep and respiratory distribution business. Both these acquisitions will not be material to our quarter results.

Our Board of Directors today declared a quarterly dividend of \$0.39 per share, reflecting the Board's confidence in our strong liquidity position and operating performance. Our solid cash flow and liquidity provides flexibility in how we allocate capital. During the pandemic, we have focused on paying down debt. Going forward, we plan to continue to reinvest for growth through R&D. We will also likely continue to deploy capital for tuck-in acquisitions like Citus Health.

We intend to continue to return cash to shareholders through our dividend program. We may also resume our share buyback program sometime during the calendar year. This program has been on pause since our acquisitions of MatrixCare and Propeller Health in fiscal year 2019.

Turning now to our expectations on the outlook for Q4 FY '21 and FY '22 outlook. There remains uncertainty in the short term, particularly in predicting the timing of recovery of new patient flow from COVID-19 related impacts across the many countries that we operate in. Consequently, we expect Q4 FY '21 revenue to reflect low single-digit sequential growth over Q3 FY '21.

As we move through FY '22, we expect to see continued improvement in new patient flow and a return to more normalized underlying revenue growth trends. Additionally, we are seeing minimal COVID-19 generated demand for our ventilators and do not expect any material benefit going forward. As a reminder, we recorded \$35 million COVID-19 generated revenue in our March quarter last year, \$125 million in our June quarter last year and \$40 million in our first quarter of FY '21.

Mask and accessories have continued to demonstrate resilience and growth over the past 3 months, reflecting the insulating value of the large patient installed base and the success of our resupply service offerings. We expect to see continued year-on-year growth of our mask sales in FY '22.

Finally, like many other companies, we continue to experience significant uncertainty in the current environment, particularly in relation to the timing of the reopening of economies as the vaccination programs roll out. As a result, our forecast and possible future revenue outcomes remain dynamic.

And with that, I will hand the call back to Amy.

Amy Wakeham - ResMed Inc. - VP of IR & Corporate Communications

Great. Thanks, Brett. Xeline, I'd like to now turn the call over to you to provide instructions and then run the Q&A portion of the call. Xeline, are you there? Ready to run the Q&A portion of the call?

QUESTIONS AND ANSWERS

Operator

This is the backup operator. And Xeline had an issue on her end. We have a question coming from the line of Lyanne Harrison from Bank of America.

Lyanne Harrison - BofA Securities, Research Division - VP

Perhaps I could start with rest of the world or outside of the United States or in America in terms of the device trends you're seeing there, certainly down 18% on constant currency. Could you perhaps split in terms of what you're seeing in terms of real devices decline without the COVID impact there? And then also, particularly for Germany and France, what you're seeing in that market currently? And at what sort of rate is offering as a percentage of normal, particularly given the increased COVID cases in those countries?

Michael J. Farrell - ResMed Inc. - CEO & Director

Yes. Thanks for the question, Lyanne. And yes, clearly, as I said in the prepared remarks, the March 2020, \$35 million worth of ventilators were primarily where COVID was impacting then, which was southwest China, so primarily Hubei province, and northern Italy. So China and Italy and so clearly, the \$35 million worth of sales in the March quarter last year were predominantly in that rest of world category.

So you can imagine that the actual decline in terms of the COVID impact on year-on-year is significantly below that 18% CC that you talked about, much further below that. And really importantly, when you look at the sort of kinetics of this and you think about the December quarter to the March quarter and then what we're going to see in June, we're seeing countries opening up. They're adopting digital health, and they're finding ways to make it work. And even in France and Germany, where you did see lockdowns in the retail side, the healthcare was not as impacted. And our digital health solutions, particularly around remote patient screening, diagnosis have been effective. And so we're seeing that open up as we move forward.

Rob, do you want to take the second part of the question?

Robert A. Douglas - ResMed Inc. - President & COO

The Germany and France, you mean?

Michael J. Farrell - ResMed Inc. - CEO & Director

Yes.

Robert A. Douglas - ResMed Inc. - President & COO

Yes. The challenge in Germany and France really in this quarter has been the sort of the second wave, which really caused extensive lockdowns and put challenges in there. We had seen sort of an incremental opening up. That actually slowed down. It wasn't quite as significant as before,

where we really saw all of the sleep labs get converted into COVID wards, but we certainly saw a reduction in new patient flow in those countries as well and it has been a significant issue.

In terms of actually breaking out the sort of the device sales in those specific countries without the COVID impact, Lyanne, I don't think we'll be able to give that sort of granularity out to really clarify that for you. But underlying it, we need to understand that those sleep businesses continued. And also, you're probably aware that our ventilation businesses in Europe are a larger share than what they are -- of the ResMed business than what they are in terms of the global ResMed business. So there was a factor in that in terms of the relativities of what had happened with the incremental COVID ventilator sales in the previous period.

Operator

We have our next question coming from the line of Gretel Janu with Crédit Suisse.

Gretel Janu - *Crédit Suisse AG, Research Division - Research Analyst*

Just firstly on U.S. devices, what was sort of performance of underlying CPAP devices ex COVID? I'm assuming there was very limited COVID ventilator sales in the prior year. So I guess when we compare this to last quarter, it was actually much weaker. So is that because there's less patients coming through the sleep labs or were there potentially market share losses? Can you explain what happened from a sequential performance between last quarter and this quarter?

Michael J. Farrell - *ResMed Inc. - CEO & Director*

Thanks, Gretel. Good question. And if you look at just U.S., Canada, Latin America, the America's numbers' devices were down 2% year-on-year. And if you think about what we're talking about the COVID recovery rates being somewhere between 70% of pre-COVID patient flow to 90% of pre-COVID patient flow, depending on the country. If you just do that raw math there, that comes out to 98% of pre-COVID patient level, which it's not quite there because there are some replacement devices included there. But certainly, no, we actually saw very steady market share, some gains in some of the mask areas, but very steady market share in the device side.

Some of our competitors are having some difficulties around supply as all of us are, with global supply chains and other factors going on, we may have even taken some share in the device side. So what we're seeing just in those U.S. numbers, when you think about sequential from the December to March quarter is really all about, as I said in the prepared remarks, around deductibles, resetting of those deductibles that impacts devices significantly more than masks and accessories.

If you look at the masks and accessories just in that quarter, we saw 7% constant currency growth in masks and accessories in the March quarter year-on-year. But look, always there's a sequential impact from December to March. And so that's in there. But no, actually share very steady, maybe moving up a little on the mask side, very steady on the devices with some modest gains, but the year-on-year 2% decline in devices is truly around the COVID recovery rates.

And as we know, the rollout in the U.S. has actually been pretty strong in terms of the vaccinations. I don't think we're quite at the 98%, which would mean that 2% decline could indicate. But I do think that we are moving well towards the 90% range in some states and the sort of 80% range in some other states of pre-COVID patient flow. But every period we look at, we see improvement in both of those. Thanks for the question, Gretel.

Operator

We have our next question coming from the line of Margaret Kaczor with William Blair.

Malgorzata Maria Kaczor Andrew - *William Blair & Company L.L.C., Research Division - Partner*

You guys mentioned, I believe, at one point in the comments that you expect to return to that double-digit underlying growth in the second half of fiscal '22, and then you were kind enough to give us a series of reasons as to why it'll do so and it suggests that you'll go on the offensive. But the question is, how quickly can those investments take hold? And as you look at the short term, will growth still remain on the bottom of that U shape that you discussed previously, until you get to that second half of the fiscal year? Or can there be meaningful -- more meaningful improvements driven by some of these investments? That -- I'm sorry, I know it's a loaded question. But can the U.S., for example, even being further ahead on the vaccination curve actually help you guys and offset maybe some other geographies that are a little weaker?

Michael J. Farrell - *ResMed Inc. - CEO & Director*

Yes. Thanks, Margaret. That is a very good question and a thorough one. Look, clearly, we're very confident that the medium-to-long term of the core business is incredible, given the flow of patients and the flow of our new technology. Yes, there are short-term dynamics around second and third waves and then the vaccinations on the positive side and the opening up of economies on the positive side.

As we put it all together, we are very confident that as we get the AirSense 11 from control product launch to then start to roll that out over this calendar year in the U.S. market that, that will be a catalyst for growth. It brings not only the hardware, but also amazing software solutions for patients, physicians, providers and others.

And as we think about the scaling of just the remote patient digital health models from some of our partners and identification, engagement and enrollment, all the way through to home sleep testing and home sleep setup and rolling out of those devices, we're seeing a lot of investments start to pay off on that.

So look, it's really hard to get down to the dynamics of how quickly vaccines will go, how quickly economies will open up. But here in the U.S., which is our biggest market, we're certainly seeing both of those trend in a really positive manner, and that led me to talk about pretty bullish sort of double-digit growth towards the back end of our fiscal year 2022.

And so I think they're all the dynamics going into it. I don't know, Jim Hollingshead, if you've got any further thoughts as the President of our sleep and respiratory care business about how quickly we can use that technology to drive growth towards that back end?

James R. Hollingshead - *ResMed Inc. - President of Sleep & Respiratory Care Business*

Yes. Thanks, Mick, and thanks, Margaret, for the question. I really just would reiterate what Mick said. I think that when you think about growth, when we get back to double-digit growth, the numbers were against the big comps that came out of COVID, right? So when you think about growth as a percentage. And so the underlying dynamic in the market in the U.S., specifically but the U.S. market is pretty strong. March was the best month of the quarter for us in new patient growth in the U.S. market. And so we think that, that trend is going to continue, and we're very hopeful about vaccine roll outs will start to open up diagnostics. And of course, we have the new product that will come out in the calendar year.

So we feel very confident about the underlying core sleep business continuing to grow over the coming quarters and then we'll be able to not just maintain share but probably take some share. So -- but there's obviously some uncertainties associated with COVID and some other things, where we feel very confident in the underlying growth dynamic, and it's the COVID comp that has to clear for us to be able to talk about double-digit growth.

Operator

We have our next question coming from the line of Matthew Mishan with KeyBanc.

Matthew Ian Mishan - *KeyBanc Capital Markets Inc., Research Division - VP & Senior Equity Research Analyst*

Great. I listened to the HCA call, which is -- HCA is a large hospital system in the U.S. They seem to be integrating hospice and home health into their systems at this point. And you've seen like Cerner not really want to follow the hospital customers down. How can you work with larger hospital systems as they migrate down and do you think there would be scale for that in SaaS?

Michael J. Farrell - *ResMed Inc. - CEO & Director*

Yes. Matt, it's a great question. And it talks to within our Software as a Service business, obviously, we have privacy. We have cybersecurity, but then we have interoperability. And interoperability, making sure our data can -- through secure private APIs, be able to interact with hospital care systems is an incredibly important part of the system.

We call it out-of-hospital healthcare because we don't believe we have to go to hospital to get good healthcare. But the hospital systems call it post-acute care. And that link between post-acute care and out-of-hospital care has to be very secure and has to be very seamless, if you like, for the patient and for the healthcare system.

We're now many quarters into our Cerner partnership and what we've shown in that to our partner there, Cerner, is that ResMed is a great recipient of patients from the hospital system into both home health and hospice and beyond now into infusion with that partnership. And I think we've got a sort of a track record that ResMed can take care of those patients and make sure that there's a seamless transition from hospital to the out-of-hospital healthcare network.

And so with that proven track record, I look -- to their customers, those sort of Cerner, Epic and Allscripts, their customers being HCA and others. As HCA sort of broadens their holistic care, if you like, of patients from hospital to the home, that's an opportunity for those providers to partner with someone like ResMed. So that there's a seamless transfer of the patients.

Look, the ultimate goal is that we take costs out of the system, we take care of the patient better, and we have a seamless transfer from hospital to home or out-of-hospital care. And then hopefully not, but if you do go back to the hospital, that record can move back and forwards very well. We've got a good track record of it. And I actually see a lot of upside as hospital systems think holistically in that sort of ACO, sort of accountable care organization approach. And we've got a lot of experience in Western Europe in patients taking care holistically throughout Northern Europe and beyond.

So I'm confident that we will do well in this evolution of sort of an acute care system or a sick care system to a true healthcare system and a preventative healthcare system, which is where ResMed bets 90-plus percent of our revenues and profits. And really with the SaaS business, it's where we are the only strategic with the capability to scale, not just across the U.S., but globally.

Operator

We have our next question coming from the line of Mike Matson with Needham & Company.

Michael Stephen Matson - *Needham & Company, LLC, Research Division - Senior Analyst*

I wanted to ask about the AirSense 11. Is there anything more you can tell us about that product and how it compares to the AirSense 10? And then historically, when you've launched these flow generator platforms, it has had a fairly sizable impact on your growth, at least, on the device side. So is there any reason to believe that, that won't happen with this? And then similar question on the cost, is this going to be higher, I guess, a lower cost of manufacturing plus higher gross margin product for you guys once it ramps up, obviously?

Michael J. Farrell - ResMed Inc. - CEO & Director

Yes. Thanks, Mike. Great question. There are 3 great parts to it. So the first part, the AirSense 11 is out there, it's in controlled product launch. As I said in the prepared remarks, I'm personally part of that CPL and just amazing benefits for the individual patient and the bed partner in terms of how quiet, comfortable, cloud-connected and capable it is. So the features are extraordinary.

One thing -- we've opened up for the most we ever have around a pipeline that is out there because there's a public regulatory documents out there, and it's in CPL. I don't want to go through all the features and functions other than to say that, that it's smaller. It's quieter. It's more comfortable. It's more cloud-connected and it's not just the device, it's the software system that goes with it that provides the value for not just the patient, but the physician, the provider and the healthcare system that are a part of it.

So to the second part of your question around growth, yes, look, I do think this will be a catalyst for growth. That's why I'm comfortable in the prep remarks and the answer to Gretel earlier to talk about our confidence in saying we're going to push towards double-digit growth for the back end of this fiscal year that we're in here. And I think this device will be a catalyst for it. I think the software, the digital health technology software around it will be a large part of that catalyst for growth. Obviously, we're a different business than -- when I was running the sleep group, we launched the S9. It was -- I think the total revenues of the company were less than \$1 billion, and now the total revenues are over \$3 billion trailing 12 months. And so the percentage growth, the numbers won't be as impressive as 10 years ago, but the growth in terms of net revenue and profitability that we can reinvest in the business for more devices and more software will certainly be there.

The third part of your question around cost. Clearly, our goal, every generation is to create smaller, quieter and more comfortable, more clever devices and software systems, but also ones that have better efficiencies. So it will lower cost of manufacturing, lower cost to our supply chain. So clearly, that's an important part of this platform. We expect to do that, as you said, as we scale that up across our global business.

Operator

We have our next question coming from the line of David Low with JPMorgan.

David A. Low - JPMorgan Chase & Co, Research Division - Research Analyst

Mick, we are all aware that Philips had the issue with their device. Just wondering what your expectations are? One, if we can clarify whether there's any risk that ResMed has the same issues with ozone cleaning? And then secondly, what implications might be for ResMed's position in the market, please?

Michael J. Farrell - ResMed Inc. - CEO & Director

Yes. Thanks, David. And yes, we clearly saw from the earnings call from our competitor some issues that they're having with product quality. And I never comment on details of that. And I think all of us care most of all about our patients. And so Rob, do you want to talk a little bit to our quality standards and what we're working on, as we look at that issue?

Robert A. Douglas - ResMed Inc. - President & COO

Sure. Yes, David. As Mick said, patient safety is our number one priority, and we really focus on that. And we've actually paid a lot of attention to the foam in our devices over the years. And I can confidently say we actually don't have this problem that has been reported by competitors. We have a different design using different materials. And we have a very solid test -- aggressive testing procedure, looking at this. We have a very sophisticated complaint tracking system. And across our 14 million installed base, we -- this issue is just not there at all. So we're extremely confident with that.

We do -- we will always continue to pay close attention to patient safety and keep on it. The issue of ozone cleaning is an issue there, and we have communicated regarding our warranty position on that. It's an effective disinfectant, but the amount of use is important to keep a close eye on. So we've publicly put out information on that. And you can find that on our website if you're interested in that. So -- but we'll keep a close -- very close eye on this as we would with any industry safety issue.

Michael J. Farrell - *ResMed Inc. - CEO & Director*

Thanks, David. Actually, the second part of your question talked about what would be the implications in the market. I mean, clearly, I don't know if Jim Hollingshead wants to talk to this. But look, we want to take share when our products are smaller, quieter and more comfortable and better, and we've been doing that for 3 decades. But clearly, there might be some share implications if a competitor has constraints around supply.

Jim, do you want to talk a little bit to that?

James R. Hollingshead - *ResMed Inc. - President of Sleep & Respiratory Care Business*

Sure. I think we're waiting to see what will happen with our competitors' position and their ability to deliver product, but we're obviously always ready, willing, and able to help our customers have more product and to whatever extent there is potential upside for in market share gains during the next quarter or two with that we'll certainly do our best to take advantage of it.

Operator

We have our next question coming from the line of Sean Laaman with Morgan Stanley.

Sean M. Laaman - *Morgan Stanley, Research Division - Australian Healthcare Analyst*

Mick, even just in broad brush starts to answer this question, we've seen, I guess, one of a better term, the finality of competitive bidding in it shape, many, many -- in its proposed shape many months ago. I'm wondering if that's having influence or whatever influence that might have had with respect to pricing since that point in time?

Michael J. Farrell - *ResMed Inc. - CEO & Director*

Thanks, Sean. That's a great question, and I'll hand back to Jim Hollingshead to talk about whether the elimination of competitive bidding pretty much in terms of its delay to 2024 has any implications for pricing with us with our U.S. customers.

Jim, you want to take that?

James R. Hollingshead - *ResMed Inc. - President of Sleep & Respiratory Care Business*

Yes. Sure. Thanks Mick and thanks for the question. The competitive bidding being canceled led to ongoing stability in the pricing in the U.S. market. And that's what we see. There's stability in pricing throughout the period because of stability of reimbursement. And we -- so far, we haven't seen any signals from CMS of the intent to relaunch a program or anything like that. So it's a weird way to answer the question, but the nonevent led to no changes, we've just seen pricing stability.

Operator

We have our next question coming from the line of Andrew Goodsall with MST Marquee.

Andrew Goodsall - *MST Marquee - Healthcare analyst*

Just going to touch back on your SaaS business. I know you fielded a few questions on this, particularly around MatrixCare. But just trying to think in practical terms, how quickly we can sort of see that come back. There's certainly a lot of commentary in the marketplace, but there's a big swing on the back of COVID to home delivery care in the home. So just trying to sort of think just over the next sort of quarters, how you're seeing the profile of that recovery?

Michael J. Farrell - *ResMed Inc. - CEO & Director*

Yes. Andrew, thanks. It's a great question, and there are so many dynamics of hospital care and then the flow out through post-acute care to our SaaS system. I think, as we look forward, we saw 5% growth in the quarter across our SaaS business. We think the weighted average market growth across those 7 or now 8 verticals that we're in with Citus joining the portfolio in specialty pharmacy and home infusion, we think that sort of mid single-digit growth can move towards high single-digit growth as we see patients get back to the hospital and, therefore, get back to being discharged to skilled nursing facilities, home health, hospice and beyond.

And so it's difficult to say the exact rate of increase, but it's going to increase. And I think our technology and what we've invested in, particularly, even during COVID, some of the software that we put for our skilled nursing facility customers to manage patients who may or may not be infected by COVID and how they operate their businesses have been very well received. So even as case rates decline, but COVID is still here, and it is still across -- even with vaccinations going up, still going to impact those customers. I think some of those tools will help us see a faster path to getting from that mid single-digit growth to high single-digit growth across the group.

And as I said in the prep remarks, and this is true for ResMed always, we don't just want to meet market growth. We want to beat that market growth. So as I look towards our long-term strategy in 2025, we've got the opportunity to get way back to that double-digit growth in our SaaS business. But in the short-to-medium term, I think we can move from mid single-digits to high single-digits in this part of our portfolio. We've made the investments in the technology. We made the investments for the customers to help them deal with the dynamics of COVID. And as the recovery happens, we will be partners for them for growth on the other side.

Operator

We have our next question coming from the line of Suraj Kalia with Oppenheimer.

Suraj Kalia - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Mick, Brett, can you hear me all right?

Michael J. Farrell - *ResMed Inc. - CEO & Director*

Got you loud and clear, Suraj.

Suraj Kalia - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Perfect. So Mick, a couple of questions, and I'll just kind of put them together. Mick, I'm not sure I heard about the AHRQ report. Would love to get your perspective from a counter-messaging perspective and any quantification of impact? And the second part of my question, Mick, if I could, the SaaS business. There was a period of time that it was a tailwind to margins, to top line growth. And just kind of looking at it over the last, let's say, 4 or so quarters, it seems to be becoming a drag on overall growth. Some of these COVID issues notwithstanding, maybe you can just kind of parse us through the structural dynamics of returning this line item to what you would have perceived as normalized growth?

Michael J. Farrell - ResMed Inc. - CEO & Director

Thanks, Suraj. I'll hand the first question to Dave on AHRQ, and then I'll take the second one on SaaS. Dave?

David B. Pendarvis - ResMed Inc. - Chief Administrative Officer, Global General Counsel & Corporate Secretary

Yes. Thanks, Suraj. And I'll give you just kind of a brief response here if you want any more details, feel free to reach out to Amy, and she can bring you up to speed.

But basically, AHRQ, we believe, is taking a very narrow perspective on looking at the clinical literature, looking at only randomized controlled trials done under certain very careful criteria. And while traditionally, that has been the hallmark of the gold standard of trials, we think, particularly in this industry wherein you've got a massive amount of real-world evidence and a lot of other longitudinal trials that clearly demonstrate benefits in terms of longevity, benefits in terms of clinically significant cardiovascular outcomes, also quality of life outcomes and also outcomes in terms of healthcare utilization and lower costs, all of that evidence ought to be used to come to a conclusion that treating sleep apnea with CPAP therapy is not only good for patients, but good for the healthcare systems and good for economies as a whole.

So we're hopeful that all that evidence that we've brought in, and it's not just us, other societies, many of the clinical societies have come out, and there's been a vigorous sort of cross-industry wide, cross-clinical and academic key opinion leaders have all come out in the same direction. So we're hopeful that, that will be taken into account. And the final report, which we don't know when it will be, but likely perhaps later this calendar year, will include that data and come to a better conclusion.

Michael J. Farrell - ResMed Inc. - CEO & Director

So Suraj, I mean the only thing I'd add to Dave's response, which is very thorough there is that actually there are RCTs, randomized controlled trials, that also are excellent that weren't included. So if you're just looking at RCTs even, you need to include some of those RCTs, which were, in fact, very positive. And the AHRQ just looked at some neutral RCTs and said, well, neutral means no benefit. Like, wait, there's all these other preponderance of evidence, real-world and RCTs that are positive. So it was an interesting subsection of the literature that they used. And we have lots of folks, us and academics working on that.

On the second part of your question, SaaS. Look, it actually was a strong tailwind for us in this quarter, at 5% growth versus the COVID-included core part of the business. And I think it can be, as we look forward, and I spoke to this earlier in my answer to Andrew about SaaS going from mid single-digits to high single-digits, I think it can and then us meeting or beating that. So getting to double-digit growth in the SaaS part of our business. I do think that, that will become a tailwind for us. That 12% of our revenue is all service, SaaS, as we get out of the COVID sort of slowdown of census rates in this out-of-hospital care, we get back to a normal flow of patients through because people are wanting to age in place.

People are wanting to be outside the hospital. COVID just increased the probability that people do not want to be in a hospital for any longer than they need to. And so I think the geographic and socioeconomic trends of a growing community and people wanting to age in place and an aging population and the fact that people are seeing lower costs, lower acuity and better healthcare delivered outside the hospital all lead towards this.

The dynamics of how quickly we go from mid single-digit growth to high single-digit growth, we can debate. But the fact is it's going to go there because people are moving from the hospital to out-of-hospital healthcare, and that's where we're investing. So as I look forward to our long-term strategy, 2025, I am very confident that this will be a very strong tailwind to our business. The recovery of our whole business post-COVID is what we're talking about here. But I look on the end of FY2022, strong double-digit growth across our business. And I mean that across our whole business. Thanks for the questions, Suraj.

Operator

We have our last question coming from the line of Anthony Petrone with Jefferies.

Anthony Charles Petrone - *Jefferies LLC, Research Division - Healthcare Analyst*

Maybe just to follow up on the SaaS business and kind of going between Brightree and MatrixCare. On the Brightree side, there was some consolidation in DME space through 2020. I'm just wondering if that is cycling through the numbers there and sort of how that plays out? And then sort of when we think of core sleep trends, if you could provide maybe a quick update on sleep labs, in particular? I know it's a small portion of the overall business. But it sounds like there could be a reversal in activity as folks actually get back to sleep labs. So just sort of an update on sleep labs.

Michael J. Farrell - *ResMed Inc. - CEO & Director*

Yes. Thanks for the questions, Anthony. And to your first part of your question around SaaS, yes. I mean, clearly, there's consolidation of some players in the HME industry. And that can impact our contracts with those. In general, SaaS is a per user, per month -- like per activated user per month approach. And so acquisitions in -- an HME acquiring another HME that doesn't currently use Brightree is actually upside for us because usually the acquiring entity has all the efficiencies and scale and capabilities because they're using Brightree and then they put that into the acquired account. And so therefore, actually increase the number of users and per user per month revenue for ResMed can be an upside on that.

If it's a Brightree user acquiring another Brightree user, well, then there can be some reduction, they might get some efficiencies and reductions of the number of chairs. But ultimately, if it's a smart customer, it's going to continue to grow. And so then that over time, as they grow, will increase our revenues as part of that. So a lot of dynamics around the M&A there. But in general, in the long run for us, it's about us betting on the winning and efficient HMEs and Brightree helps us do that because the people who adopt Brightree are the winners. They have the lowest costs and the best outcomes for their patients.

To the second part of your question around sleep labs. Look, I look on the capacity here in the U.S. and the reduction that happened during COVID of the in-lab tests. Those people scale their digital health solutions and their home sleep testing capabilities. So as they come back and open up the in-lab facilities, I think that will absolutely have a rebound of the capacity in the in-labs, but they won't lose what they gained in home sleep testing.

As Aristotle said, "when the mind is stretched by a new idea, it never returns to its original size". So they're not going to forget about these great digital health solutions they have for home sleep testing. So yes, we'll get the capacity back in the sleep labs, but I also think the scalable opportunity for those sleep diagnostics providers -- to provide lower-cost, customer-friendly diagnostics in the home will be just a part of their portfolio and hopefully, will improve the rate of diagnosing the 936 million people worldwide or just looking at the U.S., the 70 million people in this country that have mild, severe or obstructive sleep apnea that need to be taken care of.

Thanks for the question, Anthony, and I'll hand back to you, Amy, to close out the call.

Amy Wakeham - *ResMed Inc. - VP of IR & Corporate Communications*

Thanks, Mick. Did you want to give your closing remarks?

Michael J. Farrell - *ResMed Inc. - CEO & Director*

Sure. Yes, I know we're 9 minutes over. So I'll make this brief. Thanks again to all our shareholders for joining us on the call. I'd like to thank once again the 7,500 ResMedians, many of you, our shareholders. Thank you for your hard work, dedication, helping people sleep better, breathe better,

around 140 countries worldwide. Thank you for the many thousands of ventilators you're getting right now to our team in India so that we can take care of people in this another emergency. I look forward to talking to you and to all of our shareholders here again in 90 days. Thanks.

Amy Wakeham - ResMed Inc. - VP of IR & Corporate Communications

Great. Thanks, Mick, and thank you all again for joining us today. We appreciate your interest and your time. If you have any additional questions, please don't hesitate to reach out directly. This does conclude our call. Xeline, you may now close out the call.

Operator

This concludes ResMed's Third Quarter of Fiscal Year 2021 Earnings Live Webcast. You may now disconnect.

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