

ResMed - Where Should the Next Capacity Go?

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Industry: Health Care Equipment

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Decision date and information cutoff: 26 October 2023, 4:29 p.m. ET

Decision scope: Hypothetical next-cycle allocation of discretionary product-development, software and commercial capacity

Case convention: This is an author-created decision exercise. The planning role and alternatives are hypothetical; cited company statements and results are historical. No private deliberations are represented.

The decision

At the close of business on 26 October 2023, ResMed had just released results for the first quarter of fiscal 2024. Its sleep and respiratory devices and masks remained central to the business. It also operated several software businesses and digital-health tools whose relationships to those products varied considerably.

For a hypothetical next planning cycle, assume you advise ResMed's senior leadership on where to place the next increment of discretionary capacity. You may direct it toward **(A) core devices and masks**, **(B) out-of-hospital workflow software and digital health**, or **(C) a gated portfolio that funds selected work in both areas against milestones**. You may refine these choices, but identify what receives people, budget, and management attention first.

This is not a claim that ResMed publicly announced such a choice. The public record does not disclose project-level budgets or returns. Use only evidence available by **4:29 p.m. ET on 26 October 2023**. The scheduled 4:30 p.m. earnings call, the next day's Form 10-Q and all later events are outside the case.

Your recommendation should identify the capability or customer outcome you are prioritizing, explain the opportunity cost, and state what evidence would cause you to change course.

One company, distinct software propositions

ResMed develops devices and masks used in sleep-disordered breathing and other respiratory conditions, alongside software and services for out-of-hospital care. Its products are connected in places, but the software portfolio is not one product or one revenue pool.

- **Brightree** and **MatrixCare** serve home medical equipment (HME), home-health, hospice and post-acute care provider workflows. These are business-management software products. The company reported them within its SaaS business.

- **MEDIFOX DAN** serves residential-care providers and became part of ResMed through an acquisition. It contributed to reported SaaS growth; the public results did not provide product-level growth, retention or returns.
- **AirView** is a provider-facing platform associated with ResMed respiratory devices; **myAir** is a patient-facing digital-health application. The company described new patient starts and AI-driven products in its digital-health ecosystem. It did not disclose standalone revenue, profitability or causal effects for either tool.
- **Somnoware** provides sleep-diagnostics software for sleep labs and physicians. ResMed announced and closed its acquisition in the quarter. The release described it as complementary to parts of the portfolio but did not classify it within reported SaaS or quantify synergies.

The potential links between these offerings-customer retention, workflow productivity, adherence, resupply or device preference-are strategic hypotheses. The public materials do not establish that any such effect has occurred or quantify its economics. [S1], Item 1; [S2], pp. 1, 4; [S3], “Business Transformation and Digital Health.”

Operating context at the cutoff

ResMed's FY2023 revenue was \$4.223 billion. Sleep and Respiratory Care contributed \$3.725 billion and SaaS \$498 million. SaaS therefore represented **11.8% of consolidated revenue (author calculation)**. FY2023 device revenue was \$2.271 billion, up 22% as reported, while masks and other revenue was \$1.454 billion, up 11%. SaaS grew 24%, mostly due to MEDIFOX DAN; excluding that acquisition, the company reported 8% growth, driven by HME. These are reported growth rates, not estimates of marginal returns. [S1], Item 7, pp. 46-49.

The latest quarter combined growth with cost pressure. Q1 FY2024 revenue was \$1.102 billion, up 16% reported and 15% at constant currency. GAAP gross margin was 54.4%, down 250 basis points year over year. Research and development expense was \$75.7 million, compared with \$63.2 million a year earlier. SaaS revenue grew 32%; ResMed attributed this to MEDIFOX DAN and continued organic growth in the portfolio, without quantifying the organic rate in the release. [S2], pp. 2-3.

Selected measure	FY2023	Q1 FY2024	Reading the measure
Consolidated revenue	\$4,223.0m	\$1,102.3m	Q1 change: +16% reported, +15% constant currency
Device revenue	\$2,270.7m	-	FY growth: +22% reported
Masks and other revenue	\$1,454.3m	-	FY growth: +11% reported
SaaS revenue	\$498.0m	-	FY growth: +24% including MEDIFOX DAN; +8% excluding it
SaaS revenue growth	-	+32%	Q1 release attributes growth to acquired MEDIFOX DAN and ongoing organic portfolio growth

Selected measure	FY2023	Q1 FY2024	Reading the measure
GAAP gross margin	55.8%	54.4%	FY change: –80 bps; Q1 change: –250 bps
R&D expense	-	\$75.7m	Q1 prior-year comparison: \$63.2m

Sources: [S1], Item 7 and segment note; [S2], pp. 2-3. Dashes mean the cited table does not provide a comparable figure here. Amounts are company-reported; constant-currency growth and GAAP margin are labelled separately. No segment margin is disclosed in this exhibit.

At FY2023 year-end, ResMed said its SaaS systems contained approximately 140 million patient accounts, up from approximately 120 million the prior year. The company's definition does not establish that these are unique active patients, PAP users or monetized customers. [S3], CEO letter / digital-health discussion.

The core and its changing supply backdrop

The FY2023 results showed strong device and mask growth. ResMed attributed device growth to higher demand, reduced competitive supply, pricing and card-to-cloud sales, among other factors. The company's Form 10-K identified Philips and Fisher & Paykel Healthcare among competitors, alongside other device makers and alternative therapies. It warned that a return of Philips products could affect demand. [S1], Item 1, “Competition” and Item 7, pp. 46-47.

Philips' 23 October 2023 update reported that it had remediated more than 99% of complete and actionable sleep-therapy-device registrations globally and had started serving new patients with sleep-therapy devices outside the United States. It also said discussions regarding a proposed consent decree continued. The update did **not** announce a U.S. restart of new-device sales, give a U.S. restart date or estimate a market-share effect. Global remediation progress is not a forecast of ResMed's demand. [S4], field-action update; [S5], slide 30.

Competition and demand were not limited to Philips. Fisher & Paykel Healthcare reported FY2023 Homecare operating revenue of NZ\$553.8 million, up 18%, and second-half OSA mask revenue growth of 28% (24% at constant currency). Its figures use different periods and definitions from ResMed's reported results; they are not a market-share comparison. [S6], FY2023 results and slide 8.

ResMed also disclosed that Q1 gross margin was affected by the Astral field safety notification, component costs and manufacturing costs, among other factors. Thus, even if device demand remained attractive, capacity, cost and competitive normalization mattered. The public disclosures do not isolate product-level costs or tell an outside observer what normalized device economics would be. [S2], p. 3.

What might software change?

ResMed's thesis for digital health included AI-driven products and growing patient starts on AirView and myAir. It also described a broad SaaS portfolio serving provider workflows. Each proposition would need a different test: for example, provider adoption and renewal for business software; activation and care-team use for digital tools; or implementation burden and contribution for an acquisition. The reported 32% quarterly SaaS growth included acquired revenue and is not evidence that each product or investment was growing at that rate. [S2], pp. 1, 3-4.

Clinical research offers a possible mechanism, with limits. A 2019 systematic review of patient-facing PAP applications included seven studies (two randomized trials, one prospective cohort and four retrospective cohorts; 304,328 participants). Six studies associated app use with 0.7-1.3 more hours of PAP use per night. The authors did not pool the results because of heterogeneity and a small evidence base; much of the total sample came from observational work. These results do not establish a myAir effect or a financial return for ResMed. [S7], pp. 769-777.

A separate review of remotely monitored PAP-adherence interventions reported five short-duration randomized trials and a pooled increase of 1.0 hour per night (95% CI 0.5-1.4); most enrolled newly diagnosed patients with minimal comorbidity and followed them for one to three months. Another 2021 meta-analysis, available here at abstract level, reported a smaller mean difference of 29.2 minutes per night across 16 trials, with substantial heterogeneity ($I^2=75\%$). Different interventions, populations and follow-up periods caution against treating these pooled results as a ResMed forecast. A plausible mechanism may involve timely clinical help or accountability as well as technology. [S8], adherence discussion; [S9], abstract.

The academic evidence on service strategy also resists a simple “software is better” conclusion. A study of 477 publicly traded U.S. manufacturers found a nonlinear association between service-sales share and firm value, with stronger associations when services were related to the core product and firms had resource slack. It was an observational analysis of an older sample, not a causal estimate of ResMed project returns. Its approximate 20-30% range is not a target for ResMed; the company's SaaS definition and business mix differ. [S10], pp. 1-14.

Three ways to use the next increment

A. Prioritize core devices and masks. Direct the largest share of incremental capacity to product development, availability, mask launches and the related customer/resupply experience. Supporters may argue this reinforces the installed base and funds the closest-to-core proposition. Opponents may question how much recent growth depended on temporary competitive supply conditions, and whether margin and manufacturing pressures reduce the return.

B. Prioritize software and digital health. Direct the largest share to a clearly defined software thesis. You must say whether you mean HME/post-acute business software, residential-care workflow, sleep-diagnostics software, or provider/patient digital tools. Supporters may argue that software can deepen relationships and improve workflows or therapy support. Opponents may ask whether acquired revenue masks organic performance, whether the businesses share capabilities, and who captures any clinical or workflow value.

C. Fund both through gates. Keep selected device and mask work moving while releasing software capacity in stages against adoption, renewal, workflow, reliability or contribution evidence. Specify which products are in scope and which milestones trigger more funding, a redesign or a stop. Supporters may value learning while uncertainty is high. Opponents may warn that dividing scarce specialists can slow both strategies and make accountability harder.

These are classroom alternatives, not ResMed's disclosed plans. The evidence does not provide an optimal allocation, project-level returns or a universal hurdle rate.

Assignment

Prepare a concise recommendation for the hypothetical next planning cycle. State:

1. Which capability or customer problem should receive priority, and which specific products or teams are in scope?
2. What should receive less capacity as a result? How does your view change under a scenario of renewed Philips competition or weaker software adoption?
3. What evidence and milestones should determine whether the company scales, redirects or stops the investment?
4. Which important assumption cannot be resolved from public evidence, and how would you test it?

Discussion questions

1. Which parts of ResMed's software portfolio are most related to its device business? What distinct value proposition does each serve?
2. How should leaders interpret device, mask and SaaS growth when the first may reflect changing supply and the latter includes acquisition contribution?
3. What would have to be true for patient- or provider-facing digital tools to create value for ResMed? Which clinical mechanism is plausible, and what remains unproven?
4. What are the strongest arguments for a focused allocation and for a gated portfolio? Where could a gated approach fail?
5. What leading indicators would distinguish profitable adoption from activity that does not create customer or company value?

Optional quantitative exercise

No numerical investment amounts or expected returns are supplied. If assigned, propose a hypothetical capacity envelope and divide it among the three alternatives. Label every amount, staffing conversion, milestone threshold, expected effect and time horizon as a **teaching assumption**. Show how your decision changes under at least two scenarios, such as stronger device competition and slower software adoption. Do not convert published clinical effect sizes or the service-share study into ResMed-specific sales, savings, margins or return assumptions. This exercise is a sensitivity discussion, not a forecast.

Sources and conventions

S1. ResMed, [FY2023 Form 10-K](#), filed 11 August 2023; Item 1 and Item 7, especially pp. 46-49, and segment note.

S2. ResMed, [Q1 FY2024 earnings release, Exhibit 99.1](#), posted 26 October 2023 at 4:05 p.m. ET; printed pp. 1-4. The 8-K was accepted at 4:05:53 p.m. ET.

S3. ResMed, [FY2023 DEF 14A](#), filed 5 October 2023; CEO letter and digital-health discussion.

S4. Royal Philips, [Q3 2023 results](#), 23 October 2023; Respironics field-action update.

S5. Royal Philips, [investor presentation](#), 23 October 2023, slide 30.

S6. Fisher & Paykel Healthcare, [FY2023 results](#), 26 May 2023; [Homecare product-group presentation](#), slide 8.

S7. Shaughnessy & Morgenthaler, "The Effect of Patient-Facing Applications on Positive Airway Pressure Therapy Adherence: A Systematic Review," *Journal of Clinical Sleep Medicine* 15(5), 769-777 (2019), [full text](#).

S8. Patil et al., "Treatment of Adult Obstructive Sleep Apnea With Positive Airway Pressure: An American Academy of Sleep Medicine Systematic Review, Meta-Analysis, and GRADE Assessment," *Journal of Clinical Sleep Medicine* 15(2), 301-334 (2019), [full text](#). Dossier review was limited to abstract and accessible adherence discussion.

S9. Labarca et al., "Telemedicine interventions for CPAP adherence in obstructive sleep apnea patients: systematic review and meta-analysis," *Sleep Medicine Reviews* 60 (2021), 101543, [abstract](#). Abstract-level access only.

S10. Fang, Palmatier & Steenkamp, “Effect of Service Transition Strategies on Firm Value,” *Journal of Marketing* 72(5), 1-14 (2008), [full text](#).

Historical company facts, management statements, derived calculations and hypothetical alternatives are distinguished above. No earnings-call remarks, 27 October filing, later outcome or post-cutoff information is included.