

Where can ResMed take share in FY23?

Recommendation

12-mth target price (AUD)

MARKET WEIGHT

\$30.71

Announcement Highlights

We provide 4Q22 forecast detail and new market share analysis to supplement our ResMed Results Preview, released this morning as part of the Wilsons Research team's broader earnings season report. We are expecting ResMed to announce non-GAAP diluted EPS of US\$1.49 per share on August 12th. New market share analysis suggests that ResMed's gains in FY22 have been most material in the US market. Upside to FY23e forecasts depends on the pace of the 'card-to-cloud' AS10 roll-out and the company's efforts to rectify component supply shortages for its flagship, cloud-connected AS11 devices. Competitor Philips' prolonged absence from the new patient part of the CPAP market leaves an under-contested US\$600M sales opportunity in FY23e.

Wilson's View

Initial analysis

ResMed will announce its 4Q22 results slightly later this year on the 12th August (Australian time; for webcast registration visit investor.resmed.com). Forecast detail is provided below in Figure 1.

Figure 1. Forecast 4Q22e results detail versus pcp

(US\$ in mn)	4Q21A	4Q22E	%chg
Americas - flow generators	268.4	281.8	5%
Americas - masks, other	203.9	224.3	10%
ROW - flow generators	209.5	215.8	3%
ROW - masks, other	98.5	105.4	7%
Software as a Service	95.8	107.0	12%
Group net revenue	876.1	934.3	7%
COGS	374.3	401.7	7%
Adjustments	-	-	
Gross profit	501.8	532.5	6%
SG&A	181.5	186.9	3%
R&D	59.9	65.4	9%
Other expenses	-	-	
Amortisation of intangibles	18.8	19.0	1%
Operating income	241.6	261.3	8%
Interest, other	(5.3)	(5.1)	-3%
Other income	4.2	3.0	-28%
Loss (equity method investments)	(1.3)	(2.0)	53%
Pre-tax profit	239.2	257.2	8%
Tax	44.1	46.3	5%
- tax rate (%)	18.4%	18.0%	
Net income	195.1	210.9	8%
Non-GAAP net income	198.4	218.5	10%
Diluted EPS	1.33	1.43	8%
Normalised Non-GAAP EPS	1.35	1.49	10%

Source: ResMed, Wilsons

Wilson's Equity Research

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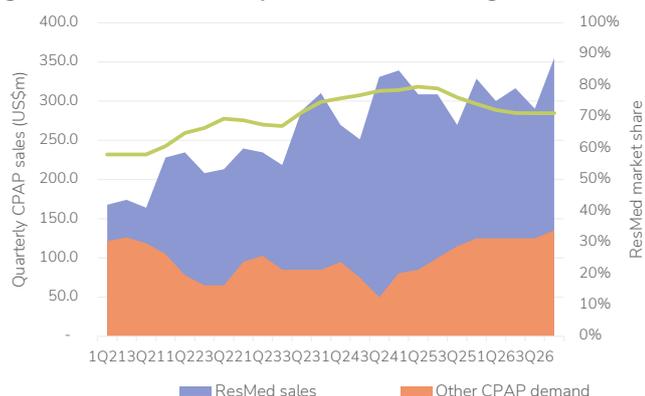
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4Q22 results expectations in more detail. On balance we go into this ResMed 4Q22 result with more emphasis on upgrade potential. Key features in the result will include:

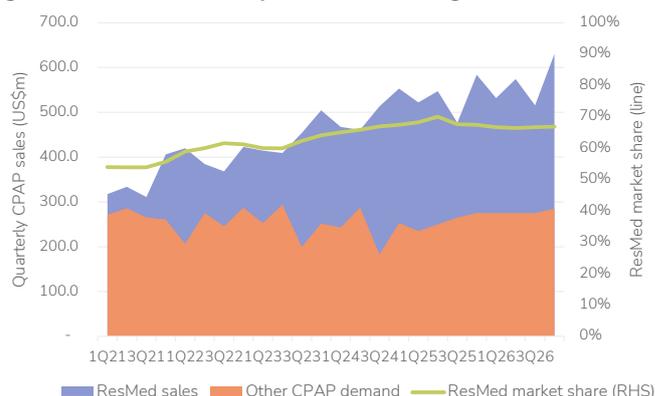
- **Americas flow generator sales.** We have set a 5% growth expectation for Americas flow generator sales, notwithstanding a strong pcp (recall that 4Q21 benefited by US\$60-70M from the first phase of the Philips recall from June-21). Component shortages will have constrained ResMed's ability to deliver the full US\$130-140M incremental sales benefit they initially assessed for 4Q22. Upside is possible given the release of the 'card-to-cloud' AS10 device (C2C). The C2C device is essentially an AirSense 10 CPAP machine with a retrograde change in data communications capabilities (i.e. a S8/9-esque SD card has been substituted in for the 4G chips that are in undersupply).
- **Market share analysis.** In Figures 2 and 3 we share new market share analyses for ResMed's flow generator businesses. Both the Americas and ROW segments had enjoyed reasonably complete patient volume recoveries by mid-2021, when Philips' CPAP and ventilator difficulties first appeared. Our analysis below sets FY21 sales and market share estimates as baselines and models 'system growth' rates of 8% for Americas and 5% for ROW, thus estimating theoretical flow generator market demand. ResMed's actual and forecast sales serve to estimate market share in both jurisdictions (as a function of overall theoretical demand). As an example, our FY22e forecast implies market share moves of 61% to 69% in the Americas. Note that ResMed's actual share has been >90% in the new patient CPAP market with Philips sidelined. We assess that ROW share gains were lower, moving from 53% to 56% of theoretical market demand. Our analysis has limitations including the accuracy of initial conditions (baseline market share estimates) and forward-looking system growth rates. Our analysis also ignores any future changes in device and pricing mix (i.e. basic CPAP, Auto-set devices and bilevels). Our current forecasts have theoretical share peaking in FY24e at 79% in the Americas and at 58% in ROW. We assess a US\$600M supply opportunity for ResMed in FY23e in the CPAP category.

Figure 2. Market share analysis for Americas flow generator sales.



Source: Wilsons.

Figure 3. Market share analysis for ROW flow generator sales



Source: Wilsons.

- **Philips recall window of opportunity open for longer.** Philips is negotiating a consent decree with the US Department of Justice (DOJ) in relation to its recall situation. The terms and impacts of this arrangement are not yet known. A possible scenario is that the DOJ will secure additional powers for FDA to micromanage Philips back into the market. This would likely be an onerous situation for Philips that may severely retard the rate at which its business can recover. At Philips' recent 2Q22 result, the company shared internal plans to recapture its 2019 sleep sales levels by 2025. Whilst initially we felt that the optimum 'windfall' for ResMed (if any) would correspond to 1H23e, recent developments suggest this may have slipped into 2H23e and most of FY24e. Supplying this excess demand remains ResMed's major challenge. It appears that ResMed is using the C2C roll-out to contest as much share as possible in the short term, hoping to upgrade those patients to AS11s when full manufacturing activity allows. From the HME customer's perspective the lower connectivity of C2C is not a barrier – the device is an attractive 'stop-gap' measure allowing HMEs to have their patients back in treatment and the associated reimbursement income flowing again.

Forecasts. No changes at this stage, noting that current estimates have non-GAAP EPS growth in FY23-24e of 8% and 16%, respectively.

Investment view. ResMed is MARKET WEIGHT rated. Our last published price target was A\$30.71 per CDI based on US\$212 per share of US common stock. Current pricing (US\$240.50) may already be factoring in prospective earnings upgrades. The local ASX stock (A\$34.21 per CDI) may also have benefited from a weak AUD.

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