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RMD.N - Q1 2022 Resmed Inc Earnings Call

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OVERVIEW:

Co. reported 1Q22 group revenue of $904m, GAAP net income of $204m and GAAP diluted EPS of $1.39.

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PRESENTATION

Operator

Hello, and welcome to the ResMed First Quarter Fiscal 2022 Earnings Conference Call and Webcast. (Operator Instructions) As a reminder, this conference is being recorded.

It's now my pleasure to turn the call over to Amy Wakeham, Vice President, Investor Relations and Corporate Communications for ResMed. Please go ahead, Amy.

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

Great. Thank you, Kevin. Hello, everyone, and welcome to ResMed's First Quarter Fiscal Year 2022 Earnings Call. We thank you for 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 press release and presentation, which are both available now.

With me on the call today are ResMed's Chief Executive Officer, Mick Farrell; and Chief Financial Officer, Brett Sandercock. During the Q&A portion of our call, Mick and Brett will be joined by Rob Douglas, our President and Chief Operating Officer; Jim Hollingshead, the President of our Sleep and Respiratory Care business; and David Pendarvis, Chief Administrative Officer and Global General Counsel.

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 the appendix of the earnings presentation. And 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.

With that, I'll turn the call over to Mick.

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

Thanks, Amy, and thank you to all of our stakeholders for joining us today as we review results for the September quarter, our first quarter of fiscal year 2022.

Our first quarter results demonstrate strong performance across our business, buoyed by extremely high demand for our sleep and respiratory care devices as well as continuing recovery of many markets from COVID-19. We achieved double-digit growth at both the top- and bottom-line metrics of our business. I want to be clear that achieving these results has not been easy this quarter. We are dealing with an unprecedented, what I would call "a perfect storm of elements", including the COVID recovery, but also including a competitor recall that's -- a recall that's tenfold higher than any in the industry to date, and supply chain constraints that are impacting not only our industry but multiple industries worldwide.

I'm incredibly proud of ResMedians across our global teams, many of whom are working 24/7 to get our products and solutions into the hands of patients who need them most. Despite these extraordinary efforts, we know that we have not been able to meet all of the demand. As the market leader, our competitor, that is in the #2 market share position, announced a recall mid-June that has created unprecedented dislocations in the market. In effect, we are facing the challenge of providing the volume for our own #1 market share position, and also trying to meet as much of their #2 market share position as possible, around the world.

Given the supply chain crisis, our suppliers have been allocating components to us on the inbound side. We have, in turn, been forced to allocate our products on the outbound side to our customers. We have been clear on the guiding principles for that allocation of our products, namely that we are giving priority for production and delivery of our devices to meet the needs of the highest acuity patients first. The allocation conversations that I have with our customers are the same ones that I am having with my suppliers and their suppliers and so on up the supply chain.

As an example, during the quarter, I was on a Zoom call with one of our supplier's, supplier's, supplier's, supplier's, supplier's, suppliers, and I'm not kidding. We achieved our goal with that manufacturer. And we received increased allocation from that manufacturer. But then we faced the challenge, and are still facing it, of working with the five customers of theirs, all the way down that chain to get to us, to ensure that the agreed upon increased allocation of that component actually gets to ResMed, gets manufactured into ResMed products, and then sent to ResMed customers, and ultimately to patients. That's just one example of a high degree of difficulty dive for our supply chain team.

The supply chain analyses and negotiations are ongoing, and the situation is very fluid, changing day by day, week by week, and month by month. We have an incredible Six Sigma Black Belt-laden team of supply chain specialists working on these issues 24/7. In short, supply bottlenecks continue to restrict our access to critical electronic components, especially semiconductor chips that ultimately limit our net production output.

In addition to component supply issues, the ongoing challenges of sea freight and airfreight from manufacturing facilities to distribution warehouses and ultimately, to customers, are increasing our costs and further impacting our ability to respond as rapidly as we want to the huge demand for ResMed products. The combination of component shortages and transportation bottlenecks makes providing steady and smooth flow of products to the market very difficult.

We are working incredibly closely with our global supply chain partners, doing everything we can to gain access to additional supply of the critical components that we need to further increase production of our medical devices. We will continue to coordinate with all stakeholders as the situation develops. We understand that this is a difficult situation for all of our customer groups, including physicians, home medical equipment providers, payers, and the most important customer, the patient.

Our #1 priority will always be patients, doing our best to help those who need treatment for sleep apnea, for COPD, for asthma and for other chronic respiratory diseases, as well as critical out-of-hospital care. Our goal is to ensure that patients get the therapy that they need, where they need it, and when they need it.

Let's now discuss the overall market conditions in our industry. We are seeing a steady ongoing recovery of demand in the countries that we operate in. They remain at various stages of the post-COVID peak recovery process in terms of new patient flow. We are still seeing a divergence in total patient flow and sleep lab capacity from 75% to 95% of pre-COVID levels in some countries, up to 100% plus of pre-COVID levels in others. These metrics will continue to ebb and flow as vaccines and boosters roll out globally, and as new variants of the coronavirus arise and cause temporary perturbations. Our global ResMed team remains committed to working with national, state, and city governments, as well as local health systems, hospitals, and healthcare providers to supply the ventilators, the masks, and the training for acute care and the transition home for affected patients.

Let me now update you on our three strategic priorities as we pivot back to grow our core business. These three 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 digital health solutions that can be scaled globally; and three, to innovate and grow the world's best software solutions for care delivered outside the hospital and especially in the home.

In August, we launched our next-generation device platform that we call AirSense 11 into the United States market. In short, that launch has been very successful. We will be introducing the AirSense 11 into additional countries very soon. Our market-leading R&D team accelerated the launch of this amazing innovation. First, by expanding the controlled product launch to additional customers, and then accelerating to an earlier full product launch date to bring this product to market faster.

Globally, we continue to sell our market-leading legacy platform, the AirSense 10, to maximize the total volume of CPAP, APAP and bilevels available for customers. Clearly, the ongoing adoption of both the AirSense 10 and the AirSense 11 platforms remains very, very strong. It's still early into the AirSense 11 launch, but initial customer feedback, combined with the detailed response as to our controlled product launch, tells me that the AirSense 11 is another success for ResMed.

Physician, provider and patient feedback are all very positive. I was able to attend the California Sleep Society meeting in person, actually, during the quarter, and I was able to observe firsthand the responses to the latest innovations on the AirSense 11, such as personal therapy assistant, care check-in and the incredible rate of uptake of the patient-centric app called myAir, which has been upgraded for AirSense 11. And the uptake on that is almost double what it was for the myAir app than the AirSense 10.

What's clear to me is that this platform, the AirSense 11, benefits not only patients and their bed partners, in addition, the device and software combination benefits physicians, it benefits providers and it benefits payers as well as entire healthcare systems with more data, more insights and better outcomes.

As a two-way digital health comms platform with many technical features that represent significant therapeutic advances, AirSense 11 is not only easy to set up and use, it also offers a very rich patient-centric experience. All AirSense 11 devices are 100% cloud connectable with upgraded digital health technology that is able to increase patient adherence to improve clinical outcomes and to deliver proven cost reductions within healthcare providers' and physicians' own health systems. We are engaging with patients in their therapy digitally like never before in the industry. This is a critical part of the ResMed 2025 strategy, as presented at our Investor Day, which we held virtually during this last quarter.

Another key aspect of our long-term growth is linked to the awareness and the increasing flow of sleep apnea patients. With 936 million sleep apnea sufferers worldwide, this work is critical to our mission. COVID-19 has advanced awareness, adoption and acceptance of digital health and remote care, including home-based sleep apnea tests. We want to support seamless and cost-effective approaches to sleep diagnostics. We want to scale technology that, in our consumer markets, enables an easy-to-use device experience and technology that, in our reimburse markets, can be a low-cost, clinically reliable, screening tool for sleep apnea.

In this vein, on October 1, we closed a transaction to acquire Ectosense, a leader in cloud-connected home sleep apnea testing technology from Belgium. We believe Ectosense's digital and easy-to-use solutions in the hands of both physicians and sleep lab technicians, as well as consumers, can help significantly increase sleep apnea diagnosis rates as well as general sleep awareness. Ectosense will operate within our Sleep and Respiratory Care business unit, and we're excited to bring this innovative technology to more global markets as we move forward.

Let me now turn to a discussion of our respiratory care business, focusing on our strategy to better serve the 380 million COPD patients and the 330 million asthma patients worldwide.

Our long-term goal is to reach hundreds of millions of patients with our respiratory care solutions, including noninvasive ventilation and life support ventilation as well as newer therapeutic areas such as cloud-connected pharmaceutical delivery solutions and high-flow therapy offerings.

Demand for our core noninvasive ventilation and life support ventilation solutions for COPD and beyond was strong throughout the quarter, especially in markets outside the United States where physicians and providers shifted focus to support the most severe, highest acuity patients. This demand is aligned with our strategy to ensure priority for manufacturing and delivery of the devices that meets the needs of those patients, specifically those that need life support ventilation or noninvasive ventilation, including bilevel support, first.

We are balancing the growth in the respiratory care demand with the supply of ventilators that made it to market throughout the coronavirus pandemic as well as customers as they balance their inventory with ongoing acute and chronic ventilation patient needs.

We continue to see rapid adoption of the AirView for Ventilation software solution that we launched in Europe a little over a year ago, and we continue to expand this technology to regions around the world. The value being provided through AirView for Ventilation has been very helpful to physicians, not only during COVID, but it is increasingly valuable on an ongoing basis for them and the healthcare systems that they operate in.

In the not-too-distant future, I can see AirView becoming standard of care for patients on home-based ventilation protocols in many healthcare systems.

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, including home medical equipment as well as facility-based and home-based care settings. The continued growth of home-based care is providing tailwinds for our home medical equipment and our home health products, and we continue to grow with customers as they utilize our software and data solutions, including Brightree and Snap resupply to improve and optimize business efficiencies and patient care.

The COVID-19 pandemic has been challenging for some verticals in our SaaS business, particularly skilled nursing facilities. However, we are seeing positive trends as census rates of patients improve across SNFs and other facility-based care settings. We will continue to watch this closely as covered cases ebb and flow at slower and slower rates around the country. We expect there to be pent-up demand for technology investments in these SaaS verticals, which provides opportunities for us to increase our new customer pipeline as COVID restrictions continue to ease.

As we look at our portfolio of software solutions, we expect SaaS revenue to accelerate, increasing from mid-single-digit growth to high single-digit growth by the back end of this fiscal year. As always, our goal is to meet or beat these market growth rates as we continue to innovate and take market share. We are the leading strategic provider of SaaS solutions for out-of-hospital care, and we provide mission-critical software across a broad set of very attractive markets. We are uniquely positioned, and we have created differentiated value for ResMed with our SaaS portfolio. We are set up for sustainable growth through ongoing innovation investments, commercial excellence partnerships and future acceleration through strategic M&A as well as selective tuck-in M&A opportunities.

Looking at the portfolio of ResMed's business across sleep and respiratory care as well as our SaaS solutions, we remain confident in our long-term strategy and our pipeline of innovative solutions. Our patient-centric, physician-centric and provider-centric approach, combined with our unique

ResMed culture, means that we are well positioned to continue winning in the vastly underserved respiratory medical markets of sleep apnea, COPD, asthma and other chronic diseases.

We are transforming out-of-hospital care at scale. We are leading the market in digital health technology. With over 10 billion nights now, 10 billion nights of medical data in the cloud and over 15.5 million, 100% cloud-connectable medical devices on bedside tables in 140 countries worldwide, we are unlocking value from these data to help patients, providers, physicians, payers and entire healthcare systems. Our mission and goal, to improve 250 million lives through better healthcare in 2025, drives and motivates me and ResMedians every day. We again made excellent progress toward that goal this quarter.

Before I hand the call over to Brett for his remarks, I want to once again express my sincere gratitude and thanks to the more than 8,000 ResMedians for their perseverance, hard work and dedication during these ongoing and unprecedented times. You, our ResMed team, have helped save the lives of many hundreds of thousands of people around the world with COVID-19, with those emergency needs these last 18 months. And you are now, and you have now, already pivoted back to provide ongoing support for all of our customers during some of the most challenging industry dynamics that we've seen in the industry.

Thank you. With that, I'll hand the call over to Brett in Sydney, and then we'll open the call up for Q&A. Brett?

Brett A. Sandercock - *ResMed Inc. - CFO*

Great. Thanks, Mick. In my remarks today, I will provide an overview of our results for the first quarter of fiscal year 2022. As noted, all comparisons are to the prior year quarter.

Group revenue for the September quarter was $904 million, an increase of 20%. In constant currency terms, revenue increased by 19%. Revenue growth reflected increased demand for our sleep and respiratory care devices, driven by both sleep patient flow recovering from the COVID-19-impacted reduced levels experienced in the prior year quarter and by increased demand in response to the recent product recall by one of our competitors.

In the September quarter, we estimate the incremental revenue from COVID-19-related demand was approximately $4 million compared to $40 million estimated incremental revenue from COVID-19 related demand in the prior year quarter. Excluding the impact of COVID-19 related revenue in both the September '21 and September '20 quarters, our global revenue increased by 25% on a constant currency basis. Looking forward, we expect negligible revenue from COVID-19 related demand.

In relation to the impact of our competitors' recall, we estimate that we generated incremental device revenue in the range of $80 million to $90 million in the September quarter.

Taking a look at our geographic revenue distribution and excluding revenue from our Software as a Service business, our sales in U.S., Canada and Latin America countries were $491 million, an increase of 22%. Sales in Europe, Asia and other markets totaled $315 million, an increase of 23% and or an increase of 21% in constant currency terms.

By product segment, U.S., Canada and Latin America device sales were $276 million, an increase of 40%. Masks and other sales were $215 million, an increase of 5%. In Europe, Asia and other markets, device sales totaled $218 million, an increase of 24% or in constant currency terms, a 22% increase. Masks and other sales in Europe, Asia and other markets were $97 million, an increase of 21% or in constant currency terms, an 18% increase.

Globally, in constant currency terms, device sales increased by 31%, while masks and other sales increased by 8%. Excluding the impact of COVID-19 related sales in both the current quarter and the prior year quarter, global device sales increased by 44% in constant currency terms, while masks and other sales increased by 10% in constant currency terms.

Software as a Service revenue for the September quarter was $98 million, an increase of 6% over the prior year quarter. For the balance of fiscal year '22, we expect several factors will drive demand, including the general recovery of the global sleep market from COVID-19 impacts, the ongoing launch of our next-generation AirSense 11 platform into additional markets and geographies, and share gains during our competitors' recall. However, as reported last quarter, while we are working hard to increase manufacturing output, we will not be able to meet the expected demand resulting from our competitors' recall, primarily because of significant and ongoing supply constraints for electronic components.

As Mick discussed earlier, we're operating in a very dynamic supply chain environment. Based on the latest information available, we continue to expect component supply constraints will limit the incremental device revenue resulting from our competitors' recall to somewhere between $300 million and $350 million for fiscal year 2022. This includes the device revenue we were able to generate in Q1. In particular, we now do not see any improvement in our component supply position until our fourth quarter of FY '22.

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 first quarter earnings press release. Our non-GAAP gross margin decreased by 270 basis points to 57.2% in the September quarter compared to 59.9% in the same quarter last year. The decrease is predominantly attributable to higher manufacturing and freight costs, ASP declines and unfavorable currency movements, which has been partially offset by a positive product mix, particularly in relation to strong growth of our higher acuity devices.

Moving on to operating expenses. Our SG&A expenses for the first quarter were $177 million, an increase of 11% or in constant currency terms, SG&A expenses increased by 10% compared to the prior year period. The increase was predominantly attributable to an increase in employee-related expenses. SG&A expenses as a percentage of revenue improved to 19.5% compared to the 21.1% we reported in the prior year quarter.

Looking forward and subject to currency movements, we expect SG&A as a percentage of revenue to be in the range of 20% to 22% for the balance of fiscal year '22. R&D expenses for the quarter were $60 million, an increase of 10% or on a constant currency basis, an increase of 9%.

R&D expenses as a percentage of revenue was 6.6% compared to 7.3% in the prior year quarter. We continue to make significant investments in innovation because we believe our long-term commitment to technology, product and solutions development will deliver a sustained competitive advantage. Looking forward and subject to currency movements, we expect R&D expenses as a percentage of revenue to be in the vicinity of 7% for the balance of fiscal year '22.

Total amortization of acquired intangibles was $19 million for the quarter, and stock-based compensation expense for the quarter was $17 million. Our non-GAAP operating profit for the quarter was $281 million, an increase of 18%, underpinned by strong revenue growth.

During the quarter, we finalized the deed of settlement with the Australian Taxation Office, or ATO, covering transit pricing audits for the years 2009 through 2018, and also agreed on transfer pricing principles for the future. In anticipation of this settlement, we had previously estimated and recorded an accounting tax reserve of $249 million, net of credits and deductions, in our FY '21 financial results. In relation to the conclusion of the settlement in the current quarter, we recorded an additional GAAP tax expense of $4 million associated with lower tax credits, which were driven by foreign currency movements.

On a GAAP basis, our effective tax rate for the September quarter was 21.3%, while on a non-GAAP basis, our effective tax rate for the quarter was 20%. Looking forward, we estimate our non-GAAP effective tax rate for the fiscal year '22 will be in the range of 19% to 20%.

Non-GAAP net income for the quarter was $222 million, an increase of 20%. Non-GAAP diluted earnings per share for the quarter were $1.51, an increase of 19%. Our GAAP net income for the quarter was $204 million, and our GAAP diluted earnings per share for the quarter was $1.39.

We had negative cash flow from operations for the quarter of $66 million due to the payment of $285 million to the Australian Taxation Office associated with the deed of settlement. After adjusting for this payment, our operating cash flow for the quarter was $219 million, reflecting robust underlying earnings, partially offset by increases in working capital.

Capital expenditure for the quarter was $27 million. Depreciation and amortization for the September quarter totaled $39 million. During the quarter, we paid dividends of $61.2 million.

We recorded equity losses of $1.4 million in our income statement in the September quarter associated with the Primasun joint venture with Verily. We expect to report equity losses of approximately $2 million per quarter through the balance of fiscal year '22 associated with the joint venture operations.

We ended the first quarter with a cash balance of $276 million. At September 30, we had $806 million in gross debt and $530 million in net debt. Our debt levels remain modest. And at September 30, we had almost $1.5 billion available for drawdown under our existing revolver facility. In summary, our liquidity position remains strong.

Our Board of Directors today declared a quarterly dividend of $0.42 per share, reflecting the Board's confidence in our operating performance. Our solid cash flow and low leverage provides flexibility in how we allocate capital. 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 such as Citus Health and Ectosense, the acquisition we made on October 1.

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

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

Great. Thanks, Brett, and thanks, Mick. Now Kevin, I'd like to now turn the call back over to you to provide instructions and then run the Q&A portion of the call.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question today is coming from Matthew Mishan from KeyBanc.

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

I hope everyone is doing well. Mick, the first question is how do you ensure that your devices are going to new patient fits versus a replacement device for Philips?

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

Thanks, Matthew. Well, it's easy in markets where we're fully vertically integrated, like Germany, South Korea, and other markets worldwide, Australia, New Zealand and others, and we're able to work directly with those patients and the doctors to make that happen. It is more difficult in other markets like France or the U.S. where we work through providers. But it's been pretty clear from our competitor there that they want people to go and register their devices, and they're going to focus, they said 12 months on just replacing those devices. And frankly, that's their ethical and legal duty to go do that. And so they are laser-focused on that.

And so our work is to make sure we see the demand from patients directly in those vertically integrated markets and through distributors. And we're pretty confident that the vast, vast, vast majority of our devices go to new patients. There may be some going to replacement patients who are going online or going through certain aspects to get around and go faster than the Philips process, but certainly, the vast majority are going to new patients.

The challenge for us is that the demand of being the #1 player and also covering as much of the demand of the #2 players as possible, we've reached the capacity of those critical components coming in, in the front end. And so we're not even able to meet all of that new patient demand with -- due to those supply chain constraints.

Operator

Our next question today is coming from Chris Cooper from Goldman Sachs.

Chris Cooper - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Look, Mick, I know when you set the guidance of $300 million to $350 million for the recall, you were sort of unable to quantify masks and reluctant to do so. I was just hoping for an update today on whether you are seeing, in fact, any associated benefit on your mask sales due to the significant increase in CPAPs that you've seen in the quarter?

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

Yes. Thanks, Chris. It's a great question. And as you know, we don't provide detailed guidance and we sort of went further than we ever did because of the wide variety of sell-side estimates of what the incremental revenue could be. And we gave that last quarter, we gave that $300 million to $350 million device rough guidance, right? It's not perfect because we're predicting 12 months out in a very uncertain environment. And as Brett just reiterated, we're sticking with that, knowing that we actually had $80 million to $90 million during this quarter that comes out of that, right? And so then we've got the remainder to go fight for those components and be able to deliver that over the next 9 months.

In the mask side, it's a very complicated story, and there's a number of moving factors. And we can get into this, and I can hand to Jim Hollingshead, who runs our Sleep and Respiratory Care, can give further detail on this question or if there's a follow-up question on it. But what I can say on masks is we're not going to give public guidance around it, but there's a number of moving factors.

You saw our mask growth during the quarter, it was globally at 8%, and the U.S. market was around 5%. The headwinds we have is that while our #2 competitor is not serving as many new patients as they should, and we're not able to take all that demand, there are less new patients being set up. And ResMed, no matter what the device was, ResMed has a very good, well above 50% uptake rate of those new masks on new devices, no matter who was the manufacturer. And so that's a headwind for our business if there's a new patient that's not getting any therapy.

And then the tailwinds would be, which are not as high in volume, but the tailwinds would be that when it is a ResMed device, there is a higher probability because they're designed to work together, and they are working better together and a doctor who loves our devices often likes our masks and same with a sleep technician and the sleep therapist and a respiratory therapist, they often like the brands across the technology spectrum, and ResMed's the leader in that. We do get a very good uptake on it.

So there's some upgrade on the adherence rate to a ResMed device, but there's a headwind of, even with a competitor device, if there's no device out there, there's less mask sales happening. And thus, you have the sort of 5% growth in the U.S. masks while we're limited on the ability, as an industry, to take care of that upfront demand. I think that's about as much color as I can go into it without quantifying it for you. But I can tell you, it's a complex moving equation for us to model at a customer basis and a country level, so I can understand the difficulty for folks in the sell side as well.

Operator

Our next question is coming from David Low from JPMorgan.

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

Mick, if I could just get you to touch on the guidance, the $300 million to $350 million. I mean given we've seen $80 million to $90 million come through this quarter, could we just talk a little bit about how you expect this to be phased through the rest of the year, given the supply side constraints, please?

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

Yes. Thanks, David. And as I said in the prep remarks, there's a perfect storm hitting the industry. And so there's so many dynamics impacting us that I'm on a call this afternoon working on this. I'm shifting my attention, which usually focuses purely on customers and governments and making sure the demand is there for this amazing industry that we serve in sleep apnea and asthma, and I'm spending a lot more time with suppliers.

So with that, our best reading of the future flow of components is that, you look at it, and as Brett said in the prepared remarks, that we actually had reasonably good flow, some through inventory and working through that in the quarter of $80 million to $90 million here in the first quarter. It's going to be very difficult here in the December quarter with component shortages and very difficult in the March quarter with component shortages.

I do think the components, as we are getting some increased signals and actually doing some great engineering to work around different suppliers and to design in new components. I feel much more confident about the June quarter 2022. So our Q4 fiscal year 2022. And so that's sort of qualitative guidance to it.

We're not modeling it out. We've got the $300 million to $350 million. You can subtract off the $80 million to $90 million and model it. But if I was looking at it, it would be tougher in December and tougher in March right now, and then freeing up in the June quarter, and in September quarter, even more so as some of our new designs and new components get to roll in and we get that flow going. But look, it's changing day by day, week by week. I'm looking forward to my call this afternoon to potentially impact that. But even if I get agreement with someone today, it takes quite a while, as I explained, sort of with that example of the five levels deep in the supply chain to get that to flow through from a foundry, to a chip manufacturer, to our factory, to a product, to then our warehouse, to then be able to sell it to a customer.

So I know that's not a specific quantitative guidance, David. It's probably the best I can give you in terms of color for fiscal year 2022 and the hope we have in Q4 and Q1 '23 as we start to see those components really start to free up.

Operator

Our next question today is coming from Suraj Kalia from Oppenheimer.

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

I hope everyone is safe and healthy. Mick, specifically, on the Philips recall, if I could, could you walk us through the dynamics in the U.S. versus OUS? How sticky are these share gains? And unless our math is wrong, it almost comes across like there is some sort of mix and match on the masks versus the devices. Just give us some additional color. And really what we are trying to understand is, okay, you get $350 million, $400 million, whatever million incremental, how sticky are these? And how do you all plan for this?

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

Thanks for the question, Suraj. And since I've answered the first three, I'll just correct that our guidance was $300 million to $350 million, not $350 million to $400 million, like what you just said, but $300 million to $350 million for the fiscal year.

But Jim Hollingshead, you run this business. Do you want to -- can you give as much as you can on the color to Suraj?

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

Sure. Thanks, Suraj, for the question. I think it's a very good question. And I'm just going to back up to what we're trying to do in the business, independent of the Philips recall, and then talk about the context of the Philips recall. With the launch of AirSense 11, our aim is to put in place a product that once again significantly improves the patient experience and significantly improves workflows and lowers cost for providers, and also puts us in the position, mid-term to long-term to improve outcomes.

So AirSense 11 is a device that we put on market anticipating long-term share gain. And we have internal goals for that number, and we don't talk about that number publicly, but our plan was to take share with that device. We're launching that device now into a situation where the #2 player in the market is out of the market for new patients. And so obviously, we're going to take as -- quite a lot of share as we can put that product into the market, and we have the two best products on the market in AirSense 10 and AirSense 11.

So your question is how sticky will that share be. Our goal is to make it quite sticky. But obviously, we have good competitors in this market, and we don't anticipate landing at 100% share when the recall clears, but we want to have a number that's higher than what it was before we launched AirSense 11, and we're pretty confident we can do that.

And just to cap on that, this answer is probably already too long, but to cap on that, I will say that we've managed to take a few points of mask share during the recall as well, and our aim would be to keep some of that share as well. So I think we will emerge from this stronger than when we entered it. And our offerings are clearly the best offerings on the market.

Operator

Our next question today is coming from Gretel Janu from Credit Suisse.

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

Just on U.S. masks, I just wanted to touch a little bit more on that, given that it did disappoint slightly versus expectations. So has there been any change to the resupply dynamics in the U.S. market in the quarter?

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

Thanks, Gretel. I'll have a go and maybe -- Jim can join in as well. But I can tell you, the resupply is actually very strong. We have Brightree ReSupply. We also have Snap technology that has been incorporated into our Brightree platform that has driven incredible resupply. If you remember, that really was going strong throughout 2020. So we have some incredibly high comps when you look at the percentage growth rate of masks from this quarter a year ago. Even despite COVID hitting this time a year ago, our mask resupply, and maybe because of that somewhat with the HMEs focusing on it, our mask resupply was through the roof this time of a year ago. And even with those comps, we're still achieving some very good rates in resupply.

As I said, there are headwinds in that -- when we're not taking care of all new patients and ResMed gets well over 50% of all masks on new patients, no matter whose device it is in the global market, that's a headwind that we're dealing with while this recall continues. But the tailwinds of resupply are actually well-incorporated into those figures. And I think if you look outside the U.S. market, look at Europe, Asia and the other 140 countries we operate in, you saw pretty strong 18%, double-digit growth in masks in those areas and global growth of around 8%, which is very strong given the headwinds of new patient setups.

But Jim, any further color on the U.S. or beyond?

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

Yes. I would just say, I'll probably end up repeating some of the key points, but we had a very large comp. And there was a tailwind created by COVID, which is patients -- we've talked about this before over the last three or four quarters, but patients are more focused on having clean masks, right? COVID has created a mentality of I want a new mask, I want a fresh mask, for patients.

And then our HME customers in the U.S. have been focused on driving resupply into their installed base of patients. And I actually think that within the context of the Philips recall, driving revenue out of the installed base of patients has once again become quite an important emphasis for our HME customers. And then there are the headwinds. The headwinds of the whole market is not being served, the new patient starts are down. And because we had slower new patient starts during the span of COVID overall because labs weren't open, there's a little bit of headwind on resupply because the installed base didn't grow during that period the way we might have anticipated it to.

So it balances out. The dynamic insight of the installed base is quite good. So the installed base of patients continue to be resupplied at a very healthy rate.

Operator

Our next question today is coming from Craig Wong-Pan from RBC.

Craig Wong-Pan - *RBC Capital Markets, Research Division - Analyst*

Just the question for me was on the different regions which are trending below pre-COVID levels and which ones are above. Could you just give any color which different markets are in which category?

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

Thanks for the question, Craig. I'll hand that to Rob Douglas, our President and Chief Operating Officer.

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

Yes. Thanks, Craig. The issue really is that all of our markets are performing very strongly. The actual recall impacts are global. So we're seeing that really excess demand. And just with different dynamics, as Mick said before, you saw that very strong in the masks on all of it.

I actually couldn't call out any particular region and saying it wasn't doing really well. And there are specific countries, and sometimes it's local, when there's a lockdown, there might be a shortage of diagnosis capacity, and you'll see that. But our teams really run through that and manage around that. And as I said, just to recap, the strong performance was across all countries.

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

Yes. And I'll add on maybe just a little bit of color there, Craig. I mean it's hard to say because you said, "what regions?", and as Rob said, we can't say what regions. And even if you would ask the more specific question, what countries, it'd be difficult to say there, because in the U.S., there are 50 states with all different regulations, and some of them are 100% plus capacity and some are at 75%, 80% within the state level. And then Sydney is going up and down, and China is not just there. It's different regions there as well.

So it -- there are ebbs and flows on a daily, weekly, monthly. But what we can say is on aggregate, it is getting better and better. And it's nice to see some cities, some states, some countries at 100% plus that they're getting through it, they're finding ways to embrace digital health, home sleep apnea testing, and remote setup so that we're able to get the flow of patients going through. Then the challenge we have right now is that we don't have the components as those patients with prescriptions come through to meet all that demand, which is the real critical rate-limiter right now as well.

Operator

Our next question today is coming from David Bailey from Macquarie.

David Bailey - *Macquarie Research - Analyst*

Just as part of the recall, ResMed is going to be getting more exposure through the patient referral network. I'm just wondering if you've had any feedback or observations from physician DME patients in relation to ResMed's product offering? Just wondering if there's any observations from that group that may have used ResMed less frequently before?

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

Yes, David, it's a good question. I think everyone had exposure to ResMed products. We're the market leader, everyone knew the brand name. Everyone had tried it, and we get a large percentage of the prescriptions and actually the share in the 140 countries we operate in. But as you said, there are some doctors who liked a particular aspect or a technical aspect or an emotional aspect really or a workflow aspect of some of our competitors' devices or software systems.

And to your question, they are getting, if you like, forced exposure because it's the only one available for new patients, to ResMed's amazing innovation on the device, the software, the systems and the flow. And if they had some form of prejudice of device from the '90s that they tried or something and have been stuck with the brand, they're now trying a new brand.

And I do think, to Jim's point earlier, that some of that brand-new share of somebody who was in another brand's componentry area says, "Wow, this actually is great. My prejudice was wrong." And I think we will get a lot of that share that we'll maintain forever. And I think certainly, the exposure of patients to the brands and to understand that, has increased. I mean the Net Promoter Score for ResMed amongst patients is rising, and their knowledge about the brands, for better or for worse, through this awful recall is they're getting to know what device they have.

And that awareness is actually good for the whole industry, because I think physicians and providers and technicians have always been aware of the brands and had prescription biases and others that we absolutely influence through our really strong commercial, clinical sales teams. And now we're getting that brand name to new customers as well. So I mean the short answer to your question is yes, we've got exposure to new consumers, new physicians, new providers. And we think a lot of that will be sticky because of the value we provide.

The brand is the brand, but when it represents 50% lower labor cost if you're setting up a patient, when it represents three less clicks to get a report, when it reflects an API that can link into your Epic or your Cerner or your national health trust system, really efficiently, it becomes really part of your day-to-day workflow. And that's the type of share that we think is part of the ResMed brand and will maintain our strong growth for a long period to come through for this period.

Operator

Our next question today is coming from Margaret Kaczor from William Blair.

Margarate Elizabeth Boeye - *William Blair & Company L.L.C., Research Division - Research Analyst*

This is Maggie Boeye on for Margaret. I wanted to ask one on gross margins today. I would say that the gross margins for the quarter came in a little bit better than expected, although still contracting. Can you talk about some of the dynamics within that and how you are leveraging the increase in cost given the supply constraints and the freight issues today? And how you are looking at future gross margins specifically in the upcoming quarters?

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

Yes. Brett, I'll hand that question to you.

Brett A. Sandercock - *ResMed Inc. - CFO*

Yes. Thanks, Mick. Maggie, yes, the gross margin is pretty consistent with where we were at Q4. And the big impact we're still seeing is on freight costs, that's been really significant. So we've been -- that's a big headwind for us. So that's in it, some FX impacts. I think we've had a deal with -- it is a headwind this quarter as well. We were -- we did have a little bit of benefit on product mix with the higher acuity devices. So I think it was the bilevels, Astrals, Stellars, ASV devices that helped the favorable product mix this quarter, which helped on the gross margin side. So that was a little bit of a tailwind for us.

But having said all that, there's still challenges, still pressures on freight, still pressures that will come through on component costs and so on as well. So we need to keep an eye on that, but product mix has been quite good for us, and that's helped. Yes. So overall, pretty pleased with how the gross margin ended up for the quarter.

Operator

Our next question today is coming from Sean Laaman from Morgan Stanley.

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

Great set of numbers. Mick, I know you typically don't give sort of much discussion around what you've observed on price in the quarter or on product mix. But that said, you've talked to the supply constraints, yet you've delivered the device numbers that you have. How would you -- or could you help us characterize what you've observed on the price/volume mix somehow in the quarter?

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

Yes. Thanks for the question, Sean. And you're right, we don't provide details around pricing. But look, clearly, this is -- these are unprecedented times. Costs, as you saw, and even just in Brett's last answer there around gross margin, are going up. Freight costs, I mean, sea freight, there are over a hundred ships just 2 hours north of me here on the I-5 stuck outside Long Beach that can't get through, so the sea freight inventory is sitting there. It's coming through, higher cost than it's ever been.

Airfreight, we have literally chartered planes to fly from Singapore to L.A. and Singapore to Atlanta to get our products to market with this demand. And so those types of things increase costs dramatically. And we have to do that. They're actually consumer planes, but no consumers in them and literally just ResMed devices taking up the seats and overhead.

And so that has impacted our costs. One thing we are doing is with the AirSense 11, we are launching that with a price premium. It is excellent innovation. It is not just the best in ResMed for 8 years, it's the best in the market, I think, ever, as a platform. And so that deserves a price premium, and so we will be extracting that.

And look, we have been working with customers and eliminating some certain discounts and rebates and other things that we had used in the past because those don't apply now. And so we're eliminating some of those costs. And look, this is a customer-by-customer, region-by-region discussion that happens on a daily basis with our commercial team. But clearly, we cannot take all the costs that are being given to us, and we are working with Airsense 11 launch and with appropriate removal of other elements and pricing conditions with customers on a customer-on-customer basis to address this over time.

But our goal -- our laser-focused goal is to make sure we take care of every patient that comes through the channel, and I think that's what you saw during this last quarter.

Operator

Our next question today is coming from Anthony Petrone from Jefferies.

Frank Pinal - *Jefferies LLC*

This is Frank on for Anthony. Two questions from our side. Number one, what's the reception to Philips' recent U.S. clearance of the replacement -- the rebatement foam -- among U.S. DMEs? And then a follow-up. We're hearing a lot on U.S. hospital staffing shortages. Is there a potential tailwind for MatrixCare? Or what are some of the dynamics there looking ahead to the rest of the year?

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

Thanks for the questions, Frank. Look, I actually have no idea what customers are thinking of the replacement foam versus the replacement devices for our competitor. That's their job to take care of that. If I was a patient, I'd want a replacement device. I would want to replace mine, that's what I'd say. But I have no idea on that. It's a very, very lack of strong communication that I've seen publicly on that. And I can tell you, N equals one, I have nothing to add to that.

But on the U.S. hospital front, I do think, as I said in my prepared remarks, that we are seeing facilities-based SaaS -- the census rates at skilled nursing facilities are starting to pick up. The numbers of patients in beds is picking up. And we actually think, as you said, that there's a pent-up demand for technology to help with that.

But Rob, do you have any further color on MatrixCare and the Brightree home health and hospice?

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

Absolutely. It's actually an underpinning of our SaaS strategy that it's been a long-term issue, getting the right staff and keeping them and dealing with the cost of training them and getting staff who are providing really good patient experiences has been a big challenge for all of these care providers, not just hospitals. And so we believe that our technology solutions actually make life better for the staff, make it easier for them to do the job, easier to get trained and more likely to stay on the job, and also more efficient.

So staffing challenges actually are another driver of our strategy, just like as Jim mentioned earlier, the concerns about cleanliness and respiratory health are a driver of our core sleep strategy, these staffing shortages and challenges do drive our SaaS strategy long-term. And long-term, that will be a tailwind for the business.

Many, many short-term factors going on there. But we've -- as Mick said earlier, we're seeing good, improved performance despite challenging times, particularly for skilled nursing facilities across our SaaS businesses.

Operator

Our next question today is coming from Steve Wheen from Jarden.

Steven David Wheen - *Jarden Limited, Research Division - Analyst*

I just wanted to ask, I imagine it's quite difficult to differentiate what sales of devices are relating or going into the Philips opportunity versus the organic growth of your business. But if I do strip out the $90 million out of your device revenues for this quarter and then strip out the $40 million of event sales in the PCP, you're getting in excess of 20% growth. Is that how you characterize what's going on with the new patient starts?

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

Steve, thanks for the question. And yes, good morning to you there in Australia. I think you're not wrong that we would have very strong double-digit growth. And that actually makes sense and has traditionally happened when we launch a new product like the AirSense 11 as our first platform launch in 8 years.

And as I said in my prep remarks, I mean, I'm blown away by things like the personal care system, watching the care check-in, the personal therapies -- or watching the sleep technicians and sleep doctors live at that California Sleep Society engage, not just with the presentation from the marketing teams, but then sitting down with the clinical teams and walking through this device, I think it's a device that deserves to take double-digit growth and take a lot of share.

And so I think your calculations there are spot on in terms of this is a double-digit growth time for ResMed in the device space irrespective of this competitor recall, irrespective of the comps that we had around COVID events and the tailwinds events and headwinds of sleep apnea patients coming in a year ago that we're seeing really strong growth of the sleep space.

And as Jim said earlier, our goal is to entrench people in these amazing workflows that have lower costs and better outcomes and drive therapy to patients in ways never seen before. The part that I'd highlight is this huge take-up of patients signing on to myAir and having a personal relationship with their therapy through their smartphone with myAir is at unprecedented levels. I'm talking double the uptake of AirSense 10. That's one of the highlights that I think has been missed throughout this phone call.

So Steve, thanks for the question and the opportunity to highlight that.

Operator

Our next question today is coming from John Deakin-Bell from Citigroup.

John Deakin-Bell - *Citigroup Inc., Research Division - Director & Head of Healthcare in Australia & New Zealand*

I was just hoping to get a little more color on where you think the sleep testing capacity is in the market. Are we back to pre-pandemic levels? So just give us a little more color on new patients and where you think that has kind of trended over the last couple of quarters?

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

Great question, John. I'll hand that to Jim Hollingshead.

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

Thanks, John. As we said in Mick's prepared remarks, testing capacity is mostly back to normal. I would say, in the U.S. market, we're mostly back to normal, and there's actually probably some upside built into that because a number of sleep labs increasingly during the COVID crisis, home sleep testing was more readily adopted by sleep labs who maybe would not have taken it on before.

And so probably, you still probably got slightly fewer people going to labs but a much broader use of home sleep testing. And I think in general, you can say, in the U.S., testing capacity is back to normal, maybe a little bit up, although the shape of it looks a little bit different.

And then other reason it's really -- it varies quite a lot by what's happened with the Delta variant, what's happened with healthcare systems. But in general, I would say new patient starts in, say, Europe, are coming back to pre-COVID normal. Some countries are a little bit different. And in some cases, you've still got health systems that are a little bit backed up, right? So especially in hospital-based systems the diagnosis may be back up, but the actual capacity to set patients up on therapy may be now a bit of the bottleneck. So there's pent-up demand and things like that. But I would say, in general, we're almost back to normal.

And I would add to that, one of the reasons we decided to move forward with the acquisition of Ectosense is that we really want to make it much easier for patients to understand whether or not they have a sleeping issue. So in some markets, Ectosense will be used as a screener. And in some markets, Ectosense is already used as a diagnostic tool. But the patient experience with that technology is really, really simple, really easy to do. And so we're working with that acquisition to open up the funnel even further.

Operator

Our next question today is coming from Lyanne Harrison from Bank of America.

Lyanne Harrison - *BofA Securities, Research Division - VP*

I just wanted to talk about inventory levels a little bit, both at ResMed and also at the distributors. So on your balance sheet, I see higher inventory levels compared to last quarter. Can you talk about what that might mean for device sales going into second quarter? But then also, if we look at the different regions you're operating in, from our perspective, we're seeing greater bottlenecks at set up in the United States than in Europe. So do you have a sense of what inventory levels are like with your distributors between the United States and Europe?

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

So that's a great question, Lyanne, and quite detailed. I'll hand the first part of the question about ResMed's inventory and what's been happening with the build up there to Brett. And then I'll hand the second part about the inventory at the HMEs, HCPs and distributors, as they call them in Europe, between the U.S. and Europe to Jim Hollingshead.

So Brett, over to you first, and then Jim.

Brett A. Sandercock - *ResMed Inc. - CFO*

Yes. Thanks, Mick. Lyanne, yes, on the inventory that -- a lot of that field reflects the components of raw materials part of our inventory. And we're really -- it's really in response, I think, to the elongation of supply chains and the bottlenecks and congestions that we're seeing. We are looking to support production for any upside in electronic components. So there's a lot of components that are ready to go once we get electronic components. So we've been pretty deliberate on that.

We're looking to increase safety stocks as well, really just trying to deal with these supply disruptions. And the other big one we're seeing is that just with the increased sea freight, airfreight lead times, it's sort of blowing out to two, up to four weeks. So that's kind of more inventory that we're carrying, and I think probably a lot of companies will see that as well. So those logistics delays, I think, are causing a lot more, what I call, stock in transit coming through as well.

So it's a combination of those factors. We're also running, for example, the dual AS 10, AS 11 platforms, and that's really there to support demand into the market. So we're doing that as well, which might be a little more unusual than what we would typically do. So the combination of those factors is really driving up our inventory levels a little bit low. Inventory days have been reasonable. So that's really trying to support overall production when we get those components in, I think, is the crux and the thesis there.

Operator

Our next question today is coming...

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

Oh. Hold on. Sorry, Jim was going to answer the second part of that.

Operator

I apologize.

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

I'll just add to Lyanne's question. No that's fine. I'll just add to the second half of Lyanne's question, which is, I think it's very safe to say that our customers and distributors have very little inventory. They are running right now, I think, with unusually low inventory levels. And so when you take the #2 manufacturer out of the market and you underserve the market, it creates a very, very difficult situation.

So we're reporting what we think is obviously a strong quarter, but we are working frantically to lift our manufacturing supply and deliver product to market. And as an industry, the manufacturers in this industry are underserving demand. And so it's put our customers at a very difficult situation, and they're frustrated and we understand that they're frustrated. And we're doing the very best we can to build product as fast as we can and deliver it as fast as we can because we know that the market is undersupplied, and it's putting our customers under a great deal of pressure.

Operator

Our next question today is coming from Saul Hadassin from Barrenjoey.

Saul Hadassin - *Barrenjoey Markets Pty Limited, Research Division - Analyst*

Apologies, if the line a bit crackly. But Mick, just a quick question on SaaS. You mentioned growth increasing to the upper single-digits by the end of fiscal '22. Can you just talk to what the drivers of that increase are? What the key drivers of that uplift are likely to be that give you that confidence?

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

Yes. Thanks. I'll start and hand to Rob maybe for some further details. Look, we have Bobby Ghoshal, our new President of the SaaS division. And I can tell you, he's hitting the ground running these last five weeks he's been in there, and certainly, we're seeing some great opportunities for accelerating growth. I think look, the externalities that I talked about in the prep remarks that we covered earlier, that skilled nursing facility census is coming back, so demand is coming back. And we see the book or the pipeline book starting to build up. And in a SaaS business, that's great because when the pipeline builds up, you get the conversions and then it turns into revenue.

So we get pretty good visibility, even 3, 6, 9 months out to seeing sort of an acceleration of growth. So I feel pretty confident that those census rates and others that SNF census rates are going up and that we are going to see, with MatrixCare's really good products, some growth in the

MatrixCare business to start accelerating there. In addition, Brightree and Snap, although they're annualizing some of the acquisitions of Snap, we're seeing really good adoption of those resupply and some really new innovative tools that the Brightree R&D team are bringing to market.

And Bobby was previously COO there and has a good knowledge of that. I think that will accelerate throughout the rest of the fiscal year. But Rob, there's so many -- there are eight verticals there. What other elements do you have reasons to believe we can accelerate this business?

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

I think you've covered many of them, Mick, but also there's a real execution focus on the team, and we're really confident that they're driving execution. Mick mentioned the innovation. There's a strong innovation mentality in that team. And we've got great new offerings and great new ideas coming to market as well as really streamlining our focus. And a lot of it's also the execution on the sales front and having the sales team being able to build the pipelines and then increasingly doing face-to-face visits in getting these deployments underway as things ease up. So we've got a lot of confidence in that business.

Operator

Our next question today is coming from Dan Hurren from MST Marquee.

Dan Hurren - *MST Marquee - Healthcare Analyst*

Just looking at the fourth quarter, you guided to this $300 million to $350 million. And at that time, you were quite explicit that we should not expect the uplift until the second half. And now today, you're suggesting uplift comes in first quarter and fourth quarter, and you delivered almost what, 30% of that total uplift in the first quarter alone.

So -- and on top of that, Brett, has just said you've got the small material inventory build. So can you explain what has -- what's changed since then? And why -- what mechanics of this drop off in second and third quarter would be?

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

Yes. Thanks, Dan. So look, it's a complex and moving dynamic. But the rate-limiting step here is electronic components and specifically the semiconductor chips from a particular manufacturing and a supply chain that I know the names and the people and I'm talking to them to try and get this supply. The trouble is that there are multiple other industries. And demand for semiconductor chips that are through the roof.

And obviously, everyone on this call follows many other industries. You've heard this, we're not alone in medical device industry, automotive industry, consumer communications industry, even consumer products are often cloud-connected now and have these limitations. So look, things haven't gone better these last 90 days in terms of supply. They've got very difficult.

And our visibility, as I look at the June quarter, I feel very confident in the semiconductor chips coming through. But in December and March, it's hand-to-mouth of these devices, and chartering planes, and working with redesigns to make sure the semiconductor chips go so much in. And so our best reading of the dynamics, even though we feel in aggregate, that $300 million and $350 million, which is which is a pretty broad range in itself, and has some plus or minus on the top and bottom end of it, that we feel stronger on that June quarter with the supply that we see coming through, whereas it's not as strong. I'm closer to the December 1 now, and I know it's going to be tough, and March as well.

But look, things can change on a day by day, week by week, month by month. And what we're doing is we're being as open as we ever have around supply chain, as open as we ever had and transparent about sort of the variability, if you like, of the flow of these components that come in. I can tell you though, we get one more chip, it goes into one more device and goes to one patient. And that's the truth. There is no stockpiling of this inventory. It goes all the way straight through to production. And we have an incredibly efficient plant in Singapore, and also in Sydney, and also manufacturing in Atlanta, Georgia, and we are not constrained on our internal capacity. As soon as that part comes in, that rate-limiting bottleneck part, it goes on to a product, gets to a customer. And that's what we are focused on. And I'm giving as much color as I can qualitatively around that.

Operator

We've reached the end of our question-and-answer session. I'd like to turn the floor back over to Mr. Farrell for any further closing comments.

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

Well, thanks, Kevin, and thanks again to all of our shareholders for staying on an extra five to seven minutes here and joining us on this call. I'd also like to thank once again the 8,000 ResMedians, many of whom are also shareholders who listen to this call, for their dedication and hard work, helping people breathe better, sleep better and live better lives outside the hospital in 140 countries. Thanks for what you do today and every day.

Thanks especially to our ResMed heroes on the front lines during this crisis, patient care, technical service, sales teams working with customers every day, but I'd like to add a special call out to our amazing teams on the front lines of supply chain, management production, distribution, all of you are heroes. Every chip you get is a patient's life changed. So I look forward to talking with you all again, all of our stakeholders here in 90 days.

Thank you. I'll turn the call back to Amy to close out.

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

Great. Thanks, Mick, and thanks, everyone. 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 first quarter 2022 call. Kevin, you may now close us out.

Operator

Thank you. That does conclude today's teleconference and webcast. You may disconnect your lines at this time, and have a wonderful day. We thank you for your participation today.
