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ResMed Inc. (RMD) CEO Mick Farrell on Q4 2019 Results - Earnings Call Transcript

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FQ4: 07-25-19 Earnings Summary

Press Release *10-K* *Slides*

EPS of $0.95 beats by $0.03 | Revenue of $704.96M (13.04% Y/Y) beats by $3.4M

Earning Call Audio

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ResMed Inc. (NYSE:RMD) Q4 2019 Results Conference Call July 25, 2019 4:30 PM ET

Company Participants

Amy Wakeham - VP, IR and Corporate Communications

Mick Farrell - CEO

Brett Sandercock - CFO

David Pendarvis - Chief Administrative Officer, Global General Counsel

Rob Douglas - COO

Conference Call Participants

Lyanne Harrison - Bank of America Merrill Lynch

John Deakin-Bell - Citi

Saul Hadassin - UBS

Steve Wheen - Evans & Partners

Margaret Kaczor - William Blair

Gretel Janu - Credit Suisse

David Bailey - Macquarie

Anthony Petrone - Jeffries

Chris Cooper - Goldman Sachs

Matt Henriksson - BMO

Andrew Goodsall - MST Marquee

David Low - J.P. Morgan

Sean Laaman - Morgan Stanley

Operator

Welcome to the Q4 Fiscal Year 2019 ResMed Earnings Conference Call. My name is Rob and I will be your operator for today's call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. 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

Great. Thank you, Rob. Good afternoon and good morning, everyone. Thanks for joining us, and welcome to ResMed's fourth quarter fiscal year 2019 earnings call. This call is being webcast live and the replay along with a copy of the earnings press release and our updated investor presentation will be available on the Investor Relations section of our corporate website.

Joining me on the call today to discuss our quarterly results are CEO, Mick Farrell; and CFO, Brett Sandercock. Other members of management will be available during the Q&A portion of the call.

During our call, we will discuss several non-GAAP measures. For a reconciliation of the non-GAAP measures, please review the notes to today's earnings press release.

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.

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

Mick Farrell

Thanks, Amy, and thank you to all of our shareholders for joining us today as we review results for the fourth quarter of fiscal year 2019 for ResMed.

On today's call, I will discuss our long-term strategy. I'll review top level financial results, some business highlights from the quarter, and a few key milestones. Then, I'll hand the call over to Brett, who will walk you through our financial results in further detail.

Reflecting back on fiscal year 2019, we have a lot to be proud of here at ResMed. The business is performing well; we past $2.6 billion in revenue and grew at double digits in the top line and the bottom line. We are exiting the year with momentum. And I feel strongly that we are well-positioned heading into fiscal year 2020 and beyond.

ResMed is the world's leading technology-driven healthcare company. We have more than 10 million 100% cloud connectable medical devices in the market around the world and our AirView cloud ecosystem monitors more than 11 million patient accounts, while our out-of-hospital software systems are helping to manage 19 million more. So, that is over 100 million lives that we improved with ResMed products, services and solutions in the last 12 months. We have over 4.5 billion nights of medical sleep and respiratory care data, which continues to grow exponentially. And we are turning these data into actionable insights that will inform future innovation in products and software solutions to further benefit our customers. Our relentless focus on innovation continues to set us apart from our competition, demonstrated by the success of our latest software releases and our latest sleep apnea mask systems that we've just launched.

We have ambitions and strong ambitions to grow. We're growing our business at -- volume at double-digits; we're going to improve 250 million lives in 2025. We'll do that by helping people live happier, healthier and high quality lives outside the hospital. We remain laser-focused on growth in our core business of sleep apnea as well as in our adjacent businesses of COPD, asthma, and other chronic conditions.

We've extended our focus to include out-of-hospital software solutions that help customers create efficiencies, take costs out of the system and improve the quality of care across home medical equipment providers, home health and hospice services as well as skilled nursing facilities and beyond. In short, we believe the future of healthcare is outside the hospital, that's where ResMed competes and that's where we win.

Let's briefly now review our top level financial results. I mentioned earlier that we ended the fiscal year on a strong note, and it is, thanks to our 7,500-person global team and their hard work to drive these great results. We achieved another quarter of double-digit revenue growth, up 15% in constant currency. We produced constant currency growth in both domestic and international sales as well as in our software-as-a-service business, which is growing organically as well as through contributions from our recent acquisitions. We continued to deliver operating leverage through the business with non-GAAP operating profit growth of 18% year-over-year and non-GAAP diluted earnings per share of $0.95.

Let me now turn to a discussion of highlights across our sleep apnea and respiratory care businesses. In the devices category across these two businesses, we delivered a good quarter with year-over-year constant currency growth of 8% globally, supported by 11% growth in the United States, Canada and Latin America geographies.

We had 1% constant currency growth of devices in combined Europe, Asia and the rest of world. We continue to cycle through strong year-over-year comparisons in France and Japan as a result of digital health related fleet upgrade that we've previously discussed, and we will continue to do so for a number of quarters.

Underlying patient growth remains healthy around the globe. ResMed is well-positioned to continue to benefit from strong fundamental market dynamics, including an ageing population as well as increased awareness and attention from governments, payers, providers and physicians to better manage chronic disease.

The masks and accessories growth of our business was very strong during Q4. We were up 15% in constant currency globally. In the U.S., Canada and Latin America geographies, masks and accessories grew at 16%. And in Europe Asia, and the rest of world geographies, we grew at 12% in constant currency terms, in masks and accessories. We are taking share around the world with our latest patient interface innovations.

We make the smallest, quietest and most comfortable masks in the market. Results this quarter show the benefits of this innovation as customers vote for ResMed with their wallets. Our flagship masks, the AirFit F20 in the full face category and the AirFit N20 in the nasal category, continue their success across global markets. Our three most recent masks launches the F30, the N30i and the P30i have taken off at an incredible pace.

These market share gains are complemented by higher rates of adherence, driven by our digital solutions and increasing adoption of mask resupply programs through the market. We have extended our mask portfolio to offer even more options for physicians and homecare providers, and for the specific needs of the ultimate customer, the person who suffocates every night with sleep apnea.

We remain focused on driving innovation to meet underserved customer needs. And while these new masks have a lot of runway ahead, we also have an exciting product pipeline for the future.

We are the industry leader in digital health technology. We now support well over 11 million patients with AirView, our cloud-based platform for managing sleep apnea and COPD patients. And more than 10 million 100% cloud connectable ResMed devices have installed into the market. Over the past 12 months, we have improved the lives of 15 million people by delivering sleep apnea and COPD treatment devices and full mask systems.

Our industry-changing AirSense 10 device platform and the Air Solutions cloud-based software ecosystem are still seeing strong adoption. Our device market share continues to grow as patients and healthcare providers choose ResMed and physicians prescribe ResMed. Our digital health technology solutions have been proven to improve both business and patient outcomes. We're the market leader and we will never stop innovating in this field.

We believe that digital health technology combined with the medical equipment used to treat patients can add substantial value and improve both critical outcomes and the patient experience. Digital end-to-end solutions, connectivity, making information available to patients on their own smartphones through apps like myAir and Propeller, as well as supporting patients through their chronic disease progression, can altogether make a significant difference in both health outcomes and quality of life of patients.

Through digital health technology, we are driving engagement with patients, so they can enjoy the benefits of the best therapy available, and so the cost of chronic disease can be better managed by their physicians and other healthcare providers.

The success of our connected health devices is producing an incredible data engine. We now have over 4.5 billion nights of medical sleep apnea and COPD data in the cloud. Using advanced analytics, we are turning these clinical data into actionable insights. We are lowering labor costs for our homecare provider customers. And we are taking waste out of the system through our focus on developing solutions to get the right healthcare product or service to the right patient at the right time.

At the American Thoracic Society and at the Sleep Medicine Conference during the quarter, we presented over 40 clinical studies from our digital health databases. We are advancing the field of sleep medicine with doctors Nunez, Benjafield, and Armitstead, and their physician colleagues from around the world.

Just over one year ago, we announced a joint venture with the Alphabet subsidiary, Verily, to study the health and financial impacts of untreated sleep apnea. Based on research outcomes from this JV, we will develop software solutions to help identify, engage and better manage people with sleep apnea. The JV has been set up and is running since November of last year and the combined ResMed-Verily team is making good progress to analyze data, code software, and to launch pilot studies into the market.

This investment, which can be seen as a sophisticated, tech-driven research and development project is a great long-term bet. Over time, we know this work will drive incremental growth in our core sleep apnea business, while allowing ResMed to participate in a broader ecosystem, covering sleep apnea, cardiovascular disease, diabetes and other major chronic diseases.

Everything we do supports our ambition to help to more than 936 million people worldwide who suffocate every night with sleep apnea, and then nearly 400 million people worldwide who suffer from chronic obstructive pulmonary disease or COPD.

In January, we closed on the acquisition of Propeller Health. This is a significant addition to our vision of longitudinal solutions in respiratory care. Propeller's digital health solution helps people and their doctors better manage COPD and asthma healthcare. Propeller rounds out ResMed's portfolio to now treat COPD patients through all stages of their disease. As a reminder Propeller's advanced digital health platform leverages small sensors that are attached to the inhalers of these medicines. These sensors then pair with an easy-to-use cloud-based mobile app that automatically tracks COPD medication use and provides personalized feedback and insights to the individual, much like myAir and our other sleep apnea patient engagement systems, just not at the same scale yet.

The Propeller team is making really good progress, as they work with partners to reach commercial scale. We're very encouraged about where we are at with the team. There are few things that I can point to that give you an idea of how Propeller solutions have been recognized and adopted by their partners.

In May, the Cleveland Clinic published research showcasing that the use of Propeller's digital medicine platform for COPD patients, reduced the Cleveland Clinic's COPD-related healthcare utilization and hospitalizations across their clinic. And the year before the study, patients averaged 3.4 visits per patient per year; following the use of Propeller's technology, the rate decreased to 2.2 visits per patient per year, with the majority of patients indicating that the sensor was convenient and very easy to use. That 35% reduction in clinic visits is an incredible cost savings and productivity opportunity for hospital systems and payers.

Earlier this week, Walgreens announced that Propeller has been added to the pharmacy's health platform called, Find Care, expanding the ability to get Propeller into the hands of people struggling to manage their chronic disease through Walgreens.

Propeller's clinically validated solutions have demonstrated amazing outcomes, including trial studies showing a 58% improvement in medication adherence, a 48% increase in symptom-free days, as well a 53% reduction in emergency room visits. These are impressive results, and we can't wait to scale.

The evolution that we have made in respiratory care business has set ResMed up to become the global leader in digital health for COPD, from stage 1 and 2 COPD with Propeller to stage 3 and stage 4 COPD, with portable oxygen and noninvasive solutions. We will continue to help physicians, providers, payers and patients as they manage COPD this important, progressive and chronic disease, keeping people out of the hospital, happy and healthy in their homes.

Let's now turn to a discussion of our software-as-a-service business for the out-of-hospital healthcare settings that we operate in. Our SaaS portfolio continues its growth trajectory, with revenue up 111% year-on-year on a reported basis this quarter. On an organic pro forma basis, comparing results in Q4 to the results of these businesses before recent acquisitions, Brightree grew in the high single digit range and MatrixCare grew low double digits. We are pleased with the momentum and progress the teams have named as we integrate and optimize across the portfolio for growth.

Our competitive advantages and leading SaaS positions in home medical equipment, skilled nursing facilities, home health, hospice and other out-of-hospital care markets support ongoing portfolio growth. On a pro forma basis, we are growing this portfolio at high single digits across the blend of SaaS portfolio. And we have a clear pathway to drive sustainable, double-digit growth in our SaaS portfolio as we further integrate these businesses.

I'd like to call out a few highlights from the quarter. Our Brightree home health and hospice electronic medical record solution was awarded the 2019 MedTech Breakthrough Award for best overall healthcare administration software. Additionally, our latest K L A S or KLAS scores for home health and hospice have gone up again. KLAS looks at many aspects of customer satisfaction, which provides a holistic measure of performance. So, the trend and these latest data further validate our leading position in high-quality offering in the marketplace.

As you may recall, MatrixCare has received the best-in-class a long-term care software three years in a row. We have now organized all of our home health and hospice solutions from both HEALTHCAREfirst and Brightree under MatrixCare management. This will allow customers who operate across care settings, to enjoy the scalability and seamless transfer they want, but it also helps patients and aging seniors to navigate more easily across these healthcare settings. Additionally, we launched MatrixCare I which is a single platform for care management across out-of-hospital healthcare settings. Having a single platform, enables centralized management of care settings, consistency between functions, user management and navigation and a single view of the individual, resulting in streamlined care transitions for our customers.

Also, during the quarter, Brightree launched a new pharmacy suite for home infusion therapy providers and HME pharmacies. We've also expanded our Brightree ReSupply solutions, three new categories, incontinence, diabetics and enteral to enable HMEs to create efficiencies and optimize patient support.

In summary, for the SaaS business, we have a vision to transform and significantly improve out-of-hospital healthcare. ResMed is the strategic player, best positioned to lead this transformation. We are connecting capabilities across Brightree and MatrixCare platforms in care settings to help our customers to be more efficient, so they can better serve an aging population, helping them stay out of hospital and in a lower cost, higher quality care setting of their choice, and the best place is almost always their own home.

Before I turn the call over to Brett, let me close with this. We had a great fiscal year 2019. Full year revenue was up 15% in constant currency, and we translated that into 18% operating profit growth. We are all well-positioned to continue to drive top and bottom line growth in fiscal year 2020 and beyond. We published the prevalence data study showing the 936 million people worldwide with sleep apnea in the top tier clinical journal, Lancet. Our connected health strategy continues to support growth across global markets and the continued traction of our diversified mask and device portfolio along with an expanding pipeline of new products and enhanced digital health solutions for sleep apnea, COPD and out-of-hospital medical software markets. We have confidence in our ongoing momentum.

Finally, we've position ResMed for the long-term as an innovative global leader in digital health. Our triple aim is to slow chronic disease progression, to reduce overall healthcare system cost, and to improve outcomes and quality of life for the ultimate customer, the patient.

With that, I'll turn the call over to Brett for his remarks. And then, we'll open the lines up for Q&A. Brett, over to your in Sydney.

Brett Sandercock

Great. Thanks, Mick.

In my remarks today, I will provide an overview of our results for the fourth quarter of fiscal year 2019. As Mick noted, we had a strong quarter. Group revenues for the June quarter were $705 million, an increase of 13% over the prior year quarter or in constant currency terms, revenue increased by 15%. Excluding revenue from acquisitions, group revenue increased by 8% on a constant currency basis.

Taking a closer look at our geographic distribution and excluding revenue from our software-as-a-service business, our sales in U.S. and Canada and Latin American countries were $386 million, an increase of 11% over the prior year quarter. Sales in Europe, Asia and other markets totaled $234 million, decrease of 1% over the prior year quarter. However, in constant currency terms, sales in combined Europe, Asia and other markets increased by 4% over the prior year quarter.

Breaking out revenue between product segments. U.S., Canada and Latin America device sales were $203 million, an increase of 7% over the prior year quarter. Masks and other sales were $183 million, an increase of 16% over the prior year quarter. For revenue in Europe, Asia and other markets, device sales were $156 million, a decrease of 4% over the prior year quarter, but in constant currency terms a 1% increase.

Mask and other sales in Europe, Asia and other markets was $79 million, an increase of 6% over the prior year quarter or in constant currency terms, a 12% increase. Globally, in constant currency terms, device sales increased by 4% while masks and other sales increased by 15% over the prior year quarter.

Software-as-a-service revenue for the fourth quarter was $85 million, an increase of 111% over the prior year quarter.

During the rest of my commentary today, I will be referring to non-GAAP numbers. The non-GAAP measures adjust for the impact of amortization of acquired intangibles, purchase accounting fair value adjustment to MatrixCare deferred revenue, restructuring expenses, litigation and settlement expenses, tax related expenses associated with the U.S. tax reform and any payment on a minority interest investment. The prior comparable excludes amortization of acquired intangibles, restructuring expenses and expenses associated with U.S. tax reform. And replacing that, we provided a full reconciliation of the non-GAAP to GAAP numbers in our fourth quarter earnings press release.

Our gross margin for the June quarter was 59.3% compared with 58.1% during the same quarter in the prior year and 59.3% in Q3 FY19. Compared to the prior year, our gross margin increased by 120 basis points, predominantly attributable to manufacturing and procurement efficiencies, and the MatrixCare acquisition, partially offset by typical declines in average selling process. Assuming current exchange rates and likely trends in product and geographic mix, we expect gross margin for fiscal year 2020 to be broadly consistent with our Q4 FY19 gross margin.

Moving on to operating expenses. Our SG&A expenses for the fourth quarter were $171.6 million, an increase of 9% over prior year quarter. In constant currency terms, SG&A expenses increased by 14%. Excluding acquisitions, SG&A expenses increased by 3% on a constant currency basis. SG&A expenses as a percentage of revenue improved to

24.3% compared to the 25.1% that we reported in the prior year quarter. Looking forward, subject to currency movements and taking into account our recent acquisitions, we expect SG&A as a percentage of revenue to be in the range of 23% to 25% during fiscal year 2020.

Consistent with trends in prior year, Q1 FY20 will be at the higher end of the range while with second half of the year will trend toward the lower end of the range.

R&D expenses for the quarter were $51.1 million, an increase of 29% over the prior year quarter, on constant currency basis an increase of 32%. Excluding acquisitions, R&D expenses increased by 6%, reflecting incremental investments across our R&D portfolio. R&D expenses as a percentage of revenue were 7.3% compared to 6.4% in the prior year.

Looking forward, subject to currency movements and taking into account our recent acquisitions, we expect R&D expenses as a percentage of revenue to be in the range of 7% to 8% for fiscal year 2020.

Amortization of acquired intangibles was $23.4 million for the quarter, an increase of 102% over the prior year quarter, reflecting the impact from our recent acquisition.

Stock-based compensation expense for the quarter was $14.2 million. Non-GAAP operating profit for the quarter was $196.2 million, an increase of 18% over the prior year quarter while non-GAAP net income for the quarter was $137.6 million, an increase of 1% over the prior year quarter.

Non-GAAP diluted earnings per share for the quarter were $0.95, consistent with the prior year quarter while GAAP diluted earnings per share for the quarter was $0.48.

On a GAAP basis, our effective tax rate for the June quarter was 28.2%, while on a non-GAAP basis, our effective tax rate for the quarter was 21.8%. Looking forward, we estimate our effective tax rate for fiscal year 2020 will be in a range of 21% to 23%.

During the quarter, we recognized restructuring expenses of $9.4 million, predominantly associated with the workforce planning review in our respiratory care business, closure of our R&D facilities in Germany and cost associated with ongoing integration program in the

SaaS portfolio. Additionally, during the quarter, we recognized a write-down of $5 million associated with a minority equity investment.

Finally, in relation to legal settlement, we have tentatively agreed with the government to resolve the U.S. Department of Justice investigation for a payment of $39.5 million. We expect to also incur legal and administrative cost to typically accompany such a resolution. As a result, we have recognized a reserve of $41.2 million in our fourth quarter results in connection with this tentative agreement. While we believe a voluntary resolution is likely, there can be no assurance as to whether or when the parties will finalize a negotiated settlement.

Cash flow from operations for the fourth quarter was $141.8 million, reflecting strong underlying earnings. Capital expenditure for the quarter was $22.2 million. Depreciation and amortization for the June quarter totaled $42.8 million.

During the quarter, we paid dividends of $53.1 million. Our joint venture with Verily continued operations during the quarter and we've recorded equity losses of $6.5 million in our income statement in the June quarter associated with the joint venture. We expect to record approximately $7 million of equity losses each quarter in fiscal year 2020, associated with the joint venture operations.

Our Board of Directors today declared a quarterly dividend of $0.39 per share, representing an increase of 5% from our previously declared dividend.

At June 30, we had $1.3 billion in gross debt and $1.1 billion in net debt. Our balance sheet remains strong with modest debt levels.

On July 10, we closed on our U.S. private placement offering with $500 million in debt, consisting of $250 million and seven-year senior unsecured notes at a 3.24% coupon and $250 million in senior unsecured notes at 3.45% coupon. Net proceeds from the offering were $498 million, which we used to reduce our current borrowings under the unsecured revolving credit facility. The transaction significantly lengthens our debt maturity profile and provides improved visibility on our long-term debt funding costs.

Finally, to recap. Our top line revenue was strong this quarter with growth across all major categories. Gross margin was solid and our operating costs remained well controlled, even as we observed the impact of acquisitions. As a result, we're continuing to drive operating leverage with Q4 non-GAAP operating profit up 18% year-on-year. We are focused on driving operating results, integrating SaaS acquisitions and ensuring we continue to invest in our strategic, long-term opportunities.

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

Amy Wakeham

Great. Thank you, Brett. We will now go ahead and turn to the Q&A portion of the call. Before we start, I would like to remind everyone to please limit yourself to one question. If you do have additional questions or a follow-up, please feel free to return to call queue. Operator Rob, we are now ready for the Q&A portion of the call.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] Your first question comes from Lyanne Harrison of Bank of America Merrill Lynch. Please go ahead. Again, Lyanne Harrison, please go ahead. Your line is open.

Lyanne Harrison

Hi Mick and hi Brett. Thank you so much for taking my questions. It's in relation to the SaaS business. Can you shed some light on how the growth was achieved, whether it's new users, new module and increase in revenue per user? And also, how you might -- or when you might expect Brightree to get to double-digit growth?

Mick Farrell

Yes. Lyanne, thanks for the question. And as we said during the quarter -- or during the prepared remarks, during the quarter, we had strong growth across the SaaS portfolio, high single digit growth from Brightree and low double digit growth from MatrixCare with a blend of the two in the very high single digits. Your question of where the revenue comes from, it's a combination of the above. We've had new users that come into the system, both Brightree and MatrixCare there is churn out but we have net new users that come in. We have also launched some recent new modules including apps directly for patients in Brightree. And then, we also have price increases that apply to some elements of that portfolio. So, it's sort of a combination of all three that have driven that strong growth. And as we said, we think as we continue to integrate across the different out-of-hospital healthcare settings, we have the opportunity to increase the value we give the customers and therefore increase the revenue to a sustainable double-digit growth across that portfolio.

So, we're not giving a specific timeline exactly where that's going. But now that it's called out on our 10-Qs and 10K, we'll be going through very detail data on a 90-day basis as to where that growth is coming from. But I can tell you, having just had a steering committee review with both the Brightree management team and with the MatrixCare management team just this week that we have a really good portfolio of new solutions and services, and new lines of business including getting into infusion businesses from Brightree, into enteral care and diabetics and beyond. So, there is a very good portfolio ahead.

Operator

Your next question comes from John Deakin-Bell of Citi. Please go ahead.

John Deakin-Bell

Good morning, Mick. Mick, just give us a bit more of a sense from your perspective about the mask growth in the U.S. [Technical Difficulty] over the last 12 months, it certainly looks like it accelerated versus kind of the average over the last five years. And [Technical Difficulty] declined a bit the volumes, the volumes [Technical Difficulty] 15%. Can you just give us a little more perspective from what you're seeing in terms of is that driven by the resupply? What are the key components of that elevated mask growth?

Mick Farrell

Yes. Thanks for the question, John. That allows us to talk about what we've been doing to help our customers on masks and adherence and so on. As you noted, our U.S., Canada, Latin America growth in the quarter was very strong, was 16% constant currency in that geography. But I'll note it was also 12% in constant currency in Europe, Asia and rest of world and so a sort of global number of 15% constant currency growth across the business.

It's driven primarily by market share gains, those high strong double-digit growth there. We say the market is growing in mid to high single digits. So, at 15% growth, we're clearly taking share. So, that's one point. Secondly, what we're driving is increased adherence. As I talked at length on the prep remarks on digital health technology, we're driving upto 87% adherence on patients who set up on a ResMed device using myAir and all the Air Solutions capabilities. And so, 9 out of 10 people are staying on therapy, and so that just drives a stronger tail of the number of patients who will adhere to therapy and therefore will need masks as they get dirty and decay over time. So, that's a big part of it. So, it's the share gain, it's the adherence that we're driving and it's also getting new patients into the funnel. And we're doing a better job of identifying, engaging, enrolling patients around the world, not just by publishing the prevalence data that we just did but using the big data to partner with healthcare providers and governments and payers to show that there is a return on investments in diagnosing and treating sleep apnea patients, not only improving the quality of life of the individuals and their lives changed and lower incidence occurring disease but also directly to lower healthcare costs for government insurance and private insurance as well.

So, it's sort of a combination of all three, move people into the pipeline, the pipeline expanding through adherence and also ResMed gaining its share of that pipeline through the mask innovation.

Operator

Your next question comes from Saul Hadassin of UBS. Please go ahead.

Saul Hadassin

Maybe could I just ask, resupply seems to be a very strong driver of growth in the U.S. from masks and accessories. We've seen the part of bundling program effectively come and go. Do you see any risks at all from a payer's perspective, the reimbursement perspective, the sustainability of funding of that product growth?

Mick Farrell

So, the key element in this is really Health Economics and Outcomes Research, right, and the acronym is HEOR. And one thing we're doing with the 4.5 billion nights of medical data we now have on sleep apnea and COPD patients is partnering up with healthcare systems. You saw our data with Kaiser Permanente Group in California, which is where we published the 87% adherence data. Obviously we don't share all the partnerships that don't get published and what we're doing. We have talked about the latest work with Walgreens in there with Cleveland Clinic on some of our digital health applications.

The bottom line is, if you keep a patient on therapy for sleep apnea and you're investing a couple of hundred dollars per year per patient on masks, you are saving far more than that in reducing emergency room visits, additional cost for cardiovascular care, diabetes and all those that from untraded obstructive sleep apnea. So, we've had decades now of clinical data showing this. We now have true economic data that we can show a customer, where that customer is a payer provider system like [indiscernible] with the government of Finland, and look at data in their system with their people. So, your question was, do I see resupply as a risk? No. I see resupply as an opportunity to show the return on investment for the people who are trying that. But actually this is a cost saving, a net-net cost savings over the life of that patient with their own data, retrospective and prospective.

Operator

Your next question comes from Steve Wheen of Evans & Partners. Please go ahead.

Steve Wheen

Hey. Good morning. I just wondered if you could go back to that settlement figure and just remind me of what the issue was. I think, this is related to that OIG issue. And does that change -- is that just an estimate at this or is it being finalized? And secondly, does it change the way you've got to run that resupply business, going forward?

Mick Farrell

Steve, I'll hand that question to Rob Douglas.

David Pendarvis

Steve, the conduct that was subject of investigation, has been laid out in our 10-Qs over time, so, if you just go back and reference that, will give you the detail that basically has sort of four different categories. How we made our resupply programs available on a trial basis was one element. There were issues about marketing programs, issues about financing and issues about making some apnea links available. So, all four of those would get wrapped into this resolution. It is a tentative resolution. And so, we are comfortable in taking the reserve now because we think it's probable that that resolution will get finalized. But that's likely only to occur, our best estimate now would be by the end of the calendar year that that will take place.

And we are pretty confident of the numbers. The 39.5 number that Brett referenced is a confident estimate of the ultimate exposure for payments to the government. The remainder of it, the fees and expenses are a little more of an estimate, but there is a pretty high confidence level that that reserve ought to be sufficient to cover all of these expenses associated with it.

Importantly, we are not going to be required in this resolution to admit any wrongdoing. In fact, we believe that we have handled ourselves appropriately. But, like in a lot of situations, you resolve matters on a consensual basis to get it behind you. And we feel it was the best resolution for our customers, our patients and for the Company and our shareholders. But going forward, we don't expect any significant changes to the way that we do business. We're going to continue to remain focused on, as Mick was saying, making resupply systems available for customers, so they can get -- patients can get adequate supplies and consumables in the future. We will still do that and in the other areas providing support to our customers and support to our patients. We don't expect any significant changes in the way we do business.

Operator

Your next question comes from Margaret Kaczor of William Blair. Please go ahead.

Margaret Kaczor

Mick, on the frontend commentary, I think you had referenced your goal of double-digit volume growth over the next several years. So, I wanted to maybe go into that a little bit more, in terms of the drivers of that growth, sleep, versus COPD versus SaaS, if you plan a similar pace of product launches, maybe that we've seen, and really when does the law of large numbers, whether it’s healthcare or resupply certain impact you?

Mick Farrell

Yes. Thanks for the question, Margaret. As you know that I did talk about that in the prep remarks that the way we look at our businesses is, it’s exciting, the $2.6 billion in revenue, but just as exciting, probably more exciting for the people who work here is the 100 million lives we touched, 15 million through products and now over 90 million through our services and solutions in the SaaS part of the business. So, our goal is to grow that combined portfolio double-digits in volume through 2025 and beat 250 million lives that we improve in the year 2025. So, that’s sort our five-year growth plan.

We haven’t split -- I mean, we have obviously internally, we haven’t publicly split out exactly how the different elements of sleep apnea, respiratory care, primarily through COPD but also asthma now through Propeller and then also through the out-of-hospital software side and how each of those elements will grow. What I can say is that sort of core market of sleep apnea is growing mid to high single digits, as you saw this quarter and last quarter. We don’t just accept market growth, we drive it by getting market share and getting new patients into the funnel to actually fundamentally improve that core sleep apnea market growth.

In respiratory care, we are revolutionizing the whole space there with the acquisition of Propeller. It will only take one of the three to five non-public pharma pilot trials that we’re doing to go to scale for that growth of that business to improve very significantly from its current run rate. And we're betting on that happening. We have a very exciting set of partnerships with big pharma that we can only talk about at the appropriate time.

And then, the third part of our business, the combination of Brightree and MatrixCare businesses, as I said, we have a clear pathway to drive those from high single digit to double digit growth, and to sustain that over time. I mean, people want to be taken care of outside the hospital, and we have the best software systems to do that. So, there'll be secular trends moving people from the hospital to hospice, home health, skilled nursing facilities, life plan communities and so on, and ResMed will beat to improve on all of them.

So, we're going to go across each of those portfolios and then lots of different factors over the next five years that will drive it. But we're very confident, we'll get double-digit volume growth across that portfolio.

Operator

Your next question comes from Gretel Janu of Credit Suisse. Please go ahead.

Gretel Janu

Thanks. Good morning. So just on SG&A, you continue to lower that SG&A to sales ratio. Just wondering, like where do you see that going, how long can you continue to actually continue to lower it, and where exactly are the gains coming from?

Mick Farrell

Yes. Thanks, Gretel. I'll handle to Rob Douglas, our COO.

Rob Douglas

Yes. Thanks, Gretel. The really good thing in our volume growth business -- we were talking earlier about the volume growth, is sort of engineering leverage into the systems and process is not that hard to do, if you really focus and keep going. Obviously, our sales processes and all of our sort of systems and the way we work do need continued investment. And we can't promise we'll be getting leverage forever. But while the volume growth is strong, we'll continue to be efficient and drive that. Obviously, you did see in our organic business, we got very good leverage. And as we've brought in the new businesses that maybe haven't had some of that sort of leverage thinking applied to them, that sort of added on quite a bit. But they have remained then huge opportunities to build leverage with some of the thinking around the process management and the continuous improvement programs that we've got. So we've got -- we've still got plenty of headroom to keep driving that leverage.

Operator

Your next question comes from David Bailey of Macquarie. Your line is open.

David Bailey

Mick, just one for me. Just wondering if you could perhaps give us a sense as to the contribution of non-invasive ventilators to devices revenue for the group?

Mick Farrell

Yes. Thanks, David. We don't split it out to a granular level of detail. What I can say is, in general, if you look at sort of the growth of respiratory care in ventilation versus a sleep apnea care and the device growth, it's a little lower in respiratory care as a sort of a secular growth rate. And so, again, we don't just accept that and say well that means our non-invasive ventilators will grow slower than our sleep ap devices. But, it is something that is generally there from the secular trend.

We actually -- this last quarter and before that, David, we had really strong growth in our ventilators. We made a software upgrade. And this wasn't a cloud offer, this was actually embedded software that is within the Astral ventilator that was really well-received by customers in Europe and in the U.S. And so, we saw some pretty strong market share gains that drove good growth in devices in both Europe and in the U.S. from our ventilator side of the business. But, we don't split it out yet. I look forward to when Propeller is so successful driving the digital health side that we have to break out our respiratory care division the way that we do our SaaS division and at that point I'll be able to give you a whole lot of the color into the ventilation part of the business. But I can say, it grew well this quarter. And we think that software upgrade has more legs on it and has some more growth ahead.

Operator

Your next question comes from Anthony Petrone of Jeffries. Please go ahead.

Anthony Petrone

So, maybe just a question on -- I'll just keep it to one, on France and Japan. You mentioned that connected devices is there, the upgrades seem to be completed. So, is there an expectation France, Japan to sort of normalize after those upgrades are completed? And if so, what extent do you think the benefit can be as a tailwind as those two countries normalize on the device side? Thanks.

Mick Farrell

Yes. Thanks for the question, Anthony. That allows me to talk about that digital health upgrade in France and Japan, which was incredible to see the rate at which two countries move into digital health. As you said, we will start to normalize as we pass all the comparables of that ahead of market growth that we've had in our rearview mirror. Look, what I'd say is that by the end -- before the end of this fiscal year, we will normalize France and Japan, and really that will influence across that whole portfolio of Europe, Asia and the rest of the world that we report on. We'll start to see that whole group normalize to market growth.

And then, hopefully, as we launch more of these digital health solutions into countries beyond France and Japan, that we'll be talking about the s-curve of innovation of digital health in Finland and in Switzerland and in Germany. I don't have announcements on any other countries beyond those two. But, I look forward sort of working through the intricacies of the other 120 countries we do business in as they embrace digital health, the same way France and Japan did. But the short answer to your question is, by the end of this fiscal year, before the end of this fiscal year, we would expect that out of U.S. device growth to normalize.

Operator

Your next question comes from Chris Cooper of Goldman Sachs.

Chris Cooper

Hi. Thanks for taking my question. Just on the expansion of Brightree into other areas outside OSA. Can I just ask the rationale for the three areas you've chosen? And also, could you just confirm, this is something you're going to continue to roll out across the other areas of healthcare? And if so, over what timeframe, please? Thank you.

Mick Farrell

Yes. Thanks for the question, Chris. Brightree has an incredible cloud-based enterprise resource planning and systems planning capability for home medical equipment companies. And they've actually always been able to, from our acquisition of them over three years ago to today, serviced beyond just sleep apnea and COPD. We've been servicing patients with incontinence, diabetic and enteral at different levels. What we really decided to do was to bring our resupply capabilities that we first applied to the ResMed side of the business, which was masks, over to those other areas of business. And so, it's not really expanding Brightree's footprint in terms of which customers it goes after. It's more expanding the services that we offer.

Now, with the infusion, the growth of infusion business, that does bring some players in HME who have that -- infusion part of their business brings that into play for Brightree. But I consider it more of an adjacency. If you think about it, the core growth of Brightree is in home medical equipment provider. And everything they do can be digitized and can be put on the cloud, and that's Brightree's goal, and it was before we acquired them and it has been after we acquired them. And I'm just happy to see that we didn't just focus on sleep apnea and COPD growth for HME providers. We are actually thinking holistically about their business. And these new launches will allow Brightree to grow its very profitable part of the business, but also to serve those customers better and to bring more efficiencies to them which will help for the health of that distribution of home medical equipment in the U.S. and really help our partners grow, and it's good profitable revenue from ResMed as well. So, I'd say, it is a very strong, good adjacency and a good part of our ongoing growth.

Chris Cooper

And this is a strategy you're going to continue to look to push going forward?

Mick Farrell

Yes, absolutely, Chris. We'll look to continue to find opportunities for home medical equipment providers to get efficiencies. So, if this part of the business that are analog, that are fax based, I mean, you wouldn't believe some of the opportunities for innovation are actually quite relatively simple and we have solutions. For instance, our e-fax [ph] solution to just digitize that whole space and help doctors and home care provides more easily integrate with each other, stuff that just is on the pipeline that we really have to get the solutions out there and get customers adopting those new modules. But, as I said earlier, I think we are seeing some good adoption in modules, and we have a good path to continue that.

Operator

Your next question comes from Joanne Wuensch of BMO. Please go ahead.

Matt Henriksson

Yes. Hi. This is Matt Henriksson in for Joanne. My question is with regards to the partnership or the agreement with Walgreens. Could you provide a little more detail into how many patients now you're opened up to using Propeller? And then how important are these pharmacy partnerships going forward for the overall Propeller strategy?

Mick Farrell

So, thanks for the question, Matt. As I said in the prep remarks, the partnership with Propeller and Walgreens is a pilot trial, like all of our Propeller trials are in that pilot trial stage. It's exciting because it's a new place at the pharmacy for Propeller to acquire new customers into the digital health platform that we have for COPD and for asthma. So, it's not public how many pharmacies and how many patients are on that platform. But generally, with Propeller's data, when we get to the end of a pilot, we're able to publish those data to get them into the peer-reviewed press. And at that point, I'll be able to talk very liberally about those data, but I don't want to jeopardize the production or publication of those data.

But, what I can say is if you look at the data that we had with other partnerships with the Cleveland Clinic data that we did talk specifically too, a 35% reduction in the number of clinic visits or a double-digit reduction in the visits to emergency room visits, these are, depending on the size of the business, if you're a large hospital system or a large payer, these are tens of millions or hundreds of millions of dollars that can saved across the scalable business. And so, it's early days of pilot data. I don't want to talk too much about the numbers until we really do start to scale it. But, I think it's important to note what -- where we want to go with digital health and COPD. And the Walgreens experiment I thought was worth sharing because it's a new sort of place to find these patients that goes beyond sort of the traditional doctor. We're now talking a pharmacy clinic.

Operator

Your next question comes from Andrew Goodsall of MST Marquee. Please go ahead.

Andrew Goodsall

Thanks very much for taking my question. Just on competitive bidding, obviously the bids are now open for ‘21. I'm just trying to understand if you're saying to think about that and how you might pass yourself or what sort of thought process you might have going into that?

Mick Farrell

Yes. Thanks for your question, Andrew. We have a very sophisticated market access team looking and governance -- is looking at this. Dave, do you want to give a summary where we're with CB?

David Pendarvis

Sure. So, even though the bid windows open, it's going to be open for 90 days. And so, the main thing that our team is doing now is continuing to work along with others in the industry to educate the industry to make sure they understand new rules of bidding and how to understand, how to think about it, how to model the impact of lead item pricing on your overall portfolio of products and to make sure that our customers are in the best position they can be in to be able to go forward and bid appropriately. So, that's really the first, second and third priorities today and that will continue. We've seen an uptick in the number of people who have visited the website, the number of people who are attending seminars as we've gotten into the bid window opening period. So, that's the main thing that we're doing. Beyond that, we're obviously trying to make sure that our customers who are the ones, who are putting the bids in a position to do best they can and make the best estimates they can for what they can do going forward. So, we're trying to support the overall process, but we're really secondary to it. So, we've got to be in a support role, primarily.

Operator

Your next question comes from David Low of J.P. Morgan. Please go ahead.

David Low

Thanks very much. A bunch of questions for Brett on the restructuring charges. So, we've seen restructuring come through for the second year in a row. Just wondering how you think about restructuring. Is this going to be something that we're likely to see on ongoing basis? And how do you distinguish between what's the restructuring charge and what falls into sort of regular SG&A and R&D costs?

Mick Farrell

Yes. Thanks, Dave. I mean, with any business, I think from time to time, it's inevitably that you have some restructuring coming through. But I don't think it's going to be something that's routine or it's necessarily going to happen all the time. I guess, we distinguish anything that's kind of logical program, it's really something that we're structurally challenging. So, the elements that we're looking at in respiratory care, we really have to look at on strategically the workforce planning and look at what capabilities we need, particularly as we move and focus more around the digital health. And you heard me talk about the Propeller and what we're doing there, and it's really making sure that we have those capabilities. So, in order to do that, really we need to look at workforce planning every now and then and strategically, if you like, make some calls, and we've done that this quarter in respiratory care.

The other elements for the German R&D facility, which is small legacy system that we basically selected to close that down. They did good work there but we -- it is kind of subscale, we've got -- as you know, we've got the major hubs, Sydney, Singapore in the U.S. So, we really thought we could do that more effectively at the larger hubs. That's something that's kind of more permanent in nature, if you like.

And then, SaaS, the third element on the SaaS restructuring is really related to the integration activities, particularly around the home health and hospice segment, we're really strongly integrating that portfolio. So, again, that's something that we're doing in SaaS that I think will only happen time to time, we're really aligning strongly around HME and then around home health and hospice and then around MatrixCare with some segments such as the skilled nursing facilities. So, there again, it's really positioning that portfolio to operate technically as it can from a revenue growing perspective and also from clearly -- obviously from a cost related expected as well.

So, I think, from time to time, it's inevitable, but I don't think -- it's not necessarily going be routing. We're not going to have these every quarter, for example.

Operator

Your last question comes from Sean Laaman of Morgan Stanley. Please go ahead.

Sean Laaman

Good morning, Mick. Mick, I'm wondering if could tease out a comment on the rate of Brightree users buying other Brightree users during the quarter, and was that an issue?

Mick Farrell

Thanks for the question, Sean. Looking at U.S. home medical equipment channel, there's many thousands of providers, and Brightree has a very strong double-digit share of those many thousands of providers, and there has been over time and will continue to be M&A. And so, yes, during the quarter, there was M&A I'm sure. I can't think of a particular example in my head but I'm sure there were examples of Brightree -- accounts who've used Brightree service acquiring other accounts who use Brightree. As you know, we generally charge that business on a per user per time period methodology. And so in general, if there two accounts come together, it could be neutral to revenue. Now, there can be some efficiencies, or it could have been one of those businesses using more modules or less modules. And so there could be many factors that either increase or decrease the revenue from the account during that process. But, it’s something that’s there, it’s part of the business. I'd say less of an impact on things like churn, where you just have people -- new people coming in and people switching to other solutions or turning off some of automated solutions. But, it’s part of that business and we've managed that over the history, three plus years we’ve managed Brightree and the entity and the team there managed it for their last 10 years that they’ve been in business as well. So, it’s part of the equation but it’s not something that's new and it’s not something that we're unable to manage. And I think you saw during the quarter strong single digit growth that we were able to do well and we thing we can even do better from there.

Operator

We are now at the one hour mark. So, I will turn the call back over to Mick Farrell.

Mick Farrell

Thanks, Rob. And before we close the call, I want to thank our dedicated 7,500 strong team here at ResMed for their continued dedication, focus and commitment to our growth strategy and all the operating excellence initiatives. You folks are the core of what we do and your efforts have enabled us to deliver these great results that we just shared with our shareholders. We’re focused as a team on our future pipeline and all the products and software solutions we have to improve outcomes and benefits for all of our stakeholders, that includes patients, includes physicians, payers, providers, governments and of course our shareholders. Thanks all for your time today and we look forward to talking to you again at the end of the first quarter for fiscal 2020.

Amy Wakeham

Great. Thank you all again for joining us today. If you do have any additional questions, you can always reach out to Investor Relations or me directly. As previously mentioned, all the documents and the transcript will be available on our website later today. Operator, Rob, you can close the call.

Operator

This concludes ResMed's fourth quarter and fiscal year 2019 earnings live webcast. You may now disconnect.