

ResMed, Resironics to Lose Share But Retain CPAP Lead

Companies: AMS:PHIA/PHG, BX, CFN, COV, FRA:LIN, NZE:FPH, RMD

June 21, 2013

Research Question:

Are ResMed's product innovation, market expansion, and cost-containment initiatives enough to overcome increasing competition and reimbursement cuts?

Summary of Findings

- This report confirms sources' expectations from our [March 8 findings](#) that [ResMed Inc.](#) (RMD) and [Philips Respironics](#) (Philips Electronics N.V./AMS:PHIA/PHG) will suffer from reduced prices, increased competition and the [CMS' July 1 round](#) of reimbursement cuts, but both will retain their [CPAP](#) market lead.
- Competition and pending CMS cuts have led to lower pricing for CPAP equipment. Low-cost unbranded manufacturers like BMC Medical Co. Ltd.'s [3B Products LLC](#) will gain a foothold, but sources foresee limited share gains if the equipment is of poor quality.
- [Fisher & Paykel Healthcare Corp. Ltd.](#) (NZE:FPH) is a distant third place competitor. [DeVilbiss Healthcare LLC](#) also has a market presence. [SleepMed Inc.](#) and [CareFusion Corp.](#) (CFN) are solid competitors in the growing home testing market.
- Private insurers will continue to encourage more home testing and other cost-reduction initiatives following the July CMS cuts. Sources provided anecdotal information about WellPoint Inc.'s (WLP) [Anthem Blue Cross](#), [Blue Cross Blue Shield of Tennessee](#), [Cigna Corp.](#) (CI) and [UnitedHealth Group Inc.](#) (UNH) offering reduced reimbursements for CPAP therapy.
- ResMed's [VPAP](#) for treating [COPD](#) is expected to be successful, but sources were mixed on its market size and the effects on the company's bottom line. Service to this patient group is expensive.
- An estimated 80% of people with sleep apnea are undiagnosed and untreated. The Affordable Care Act is expected to bring another 30 million uninsured people into the healthcare system, only adding to the number of patients needing CPAP therapy.

Silo Summaries

1) SLEEP THERAPY CLINIC MANAGERS & PHYSICIANS

These seven sources were unanimous in expecting price reductions for CPAP masks and generators, but were mixed regarding how the heightened CPAP competition and pending second round of CMS cuts would affect ResMed's market share. Three of the seven sources expect ResMed's competitors to gain share, two expect ResMed's share to be flat and two expect ResMed's share to grow as the patient population diagnosed with sleep disorders increases. Strong competition is coming from Philips Respironics, Fisher & Paykel and DeVilbiss. Low-cost CPAP providers such as 3B Products have not made significant market inroads.

2) HME/DME EQUIPMENT SALES PROFESSIONALS

ResMed, Resironics and the entire CPAP industry will take a hit as a result of the CMS cuts, according to these six sources. Lower-cost equipment providers like DeVilbiss and 3B are expected to gain some market share. Equipment pricing will decrease if private insurers push for home testing and reduce their reimbursements for CPAP equipment.

3) RESMED COMPETITORS

All three sources said some market share is shifting to Resironics and unbranded CPAP manufacturers. ResMed will remain an industry leader but will be challenged by declining branded prescriptions, poor relationships with DMEs and competitors' aggressive pricing.

4) THIRD-PARTY PAYERS

Two insurance professionals and one Medicare advisor expect CPAP equipment prices to decline and unbranded products to gain market share. ResMed could lose some share but is expected to continue as an industry leader.

5) INDUSTRY SPECIALISTS

These five sources named ResMed and Resironics as the No.1 and 2 providers of CPAP equipment, and do not expect any major CPAP industry share shifts as a result of CMS cuts scheduled for July. One source said Resironics may have a slight advantage over ResMed because of its lower pricing. ResMed is fighting to keep share through litigation that smaller manufacturers may not have the resources to counter. Unbranded, lower-cost equipment providers could claim some share, but the equipment's low quality will limit their gains. Two sources expect private insurers to follow CMS cuts. One source reported that Blue Cross and Blue Shield of Tennessee has canceled HME/DME contracts and may reduce its reimbursement rates to be in line with the CMS.

	CMS Cuts' Effect on ResMed	Private Insurers to Follow CMS	Sleep Disorder Diagnoses
Sleep Therapy Clinics	➡	⬆	⬆
HME/DME Eqpt Sales	⬇	⬆	⬆
ResMed Competitors	⬇	⬆	⬆
Third-Party Payers	⬇	⬆	⬆
Industry Specialists	➡	⬆	⬆

Background

In anticipation of the CMS' 47% reimbursement cuts on July 1, ResMed is in the process of making major product and supply chain changes. The company already has started increasing its production capacity in Singapore (which accounts for 60% of product manufacturing and is growing), announced two new CPAP masks and smaller, quieter flow generators, and increased volume opportunities with home medical equipment (HME) providers.

ResMed faces increasing competition from new market entrants in the United States. In a March [interview](#) with PropThink, a sales manager for BMC Medical's 3B Products revealed that durable medical equipment (DME) and HME suppliers are looking for alternatives to branded suppliers. The sales manager also claimed 3B's products are of equal quality and yet are 30% to 40% less expensive.

CPAP prescriptions from sleep specialists are unbranded about 50% of the time for air flow generators and about 35% of the time for masks. Higher-priced branded manufacturers like ResMed and Respironics currently supply an estimated 80% of equipment for those unbranded prescriptions, creating an opportunity for lower-priced alternatives to undercut their competitors and take share in the unbranded prescription market segment.

Sources for Blueshift Research's March 8 [report](#) said Medicare's [Competitive Bidding Program](#) and lower reimbursement rates would lead to lower prices, reduced margins and less market share for ResMed. However, they expected ResMed to maintain its lead position thanks to its high-quality products and innovation. Sources also forecast greater sleep-disorder diagnoses and, subsequently, increased CPAP equipment sales industrywide.

CURRENT RESEARCH

In this next study, Blueshift assessed whether ResMed's new products, marketing/sales and cost-containment initiatives could overcome the increase in competition and the decrease in reimbursement. We employed our pattern mining approach to establish six independent silos, comprising 24 primary sources (including 12 repeat sources) and four relevant secondary sources focused on the sleep disorder market.

- 1) Sleep therapy clinic managers and physicians (7)
- 2) HME and DME sleep apnea equipment sales professionals (6)
- 3) ResMed competitors (3)
- 4) Third-party payers (3)
- 5) Industry specialists (5)
- 6) Secondary sources (4)

Next Steps

Blueshift will monitor the implementation of CMS reimbursement cuts to determine which CPAP equipment manufacturers will gain or lose market share. We also will research private insurers' reimbursement rates to see if they are following CMS' suit and will gauge how this affects the CPAP industry. Finally, we determine if low-cost manufacturers are taking share from ResMed and will review ResMed's position within the quickly growing Asian market.

Silos

1) SLEEP THERAPY CLINIC MANAGERS AND PHYSICIANS

These seven sources were unanimous in expecting price reductions for CPAP masks and generators, but were mixed regarding how the heightened CPAP competition and pending second round of CMS cuts would affect ResMed's market

share. Three of the seven sources expect ResMed's competitors to gain share, two expect ResMed's share to be flat and two expect ResMed's share to grow as the patient population diagnosed with sleep disorders increases. Strong competition is coming from Philips Respironics, Fisher & Paykel and DeVilbiss. Low-cost CPAP providers such as 3B Products have not made significant market inroads. One source said these competitors may gain share in the mask segment and that Medicare patients may be forced to consider their low-price products once the July CMS cuts are implemented. Insurance carriers are pushing for lower-cost home testing of sleep disorders, but their reimbursement for CPAP equipment remains unclear. Private health insurers likely will follow the CMS' reimbursement cuts.

KEY SILO FINDINGS

Market Share

- 3 expect ResMed competitors to gain share, 2 expect ResMed to grow because of the growing number of diagnosed patients, and 2 expect its market share to be flat.

Competition

- Philips Respironics, Fisher & Paykel, SleepMed and DeVilbiss are key competitors.
- Low-cost foreign competitors such as 3B are considered to have inferior products but could gain share because of reimbursement cuts.

Reimbursement

- CMS reimbursement cuts are expected to drive manufacturers' pricing downward and push 1/3 of HMEs and DMEs out of business.
- Insurance companies are encouraging low-cost home testing and are expected to cut equipment reimbursement.

Pricing

- 7 of 7 expect prices for CPAP equipment to decline because of the second round of CMS bidding cuts.

Product Innovation

- ResMed R&D is respected by the industry.
- ResMed's COPD device received mixed comments: 4 sources see its market as limited, while 3 see large potential. Still, 1 of these 3 said judging the device's adoption and efficacy would be premature.

Miscellaneous

- Sleep disorder diagnosis is expected to continue to grow, leading to increased sales of CPAP equipment.

1. Sleep lab manager at a Southern medical center; repeat source

ResMed should see continued growth as the rate of sleep apnea disorder diagnoses and in-home tests increases. The company will need to maintain good relationships with its clients, keep its costs low and yet make quality products. ResMed is positioning itself to treat more complex patients with VPAP (variable positive airway pressure) although patient numbers may be limited. Approximately 40% of this center's patients are on Medicare; the center could lose up to 30% revenue once competitive bidding goes into effect.

Market Share

- "It's hard to say if ResMed will have a hard time. They will not be impacted from their business model setup. With higher need, they should see continued growth. Only 10% to 20% of people with sleep apnea are diagnosed, and the need for more diagnoses is very high. Ramped-up home studies should make this easier because it is cheaper than in-lab testing."

Competition

- "ResMed is No. 1, followed by Respironics and Fisher & Paykel. The quality may be similar among the competitors. There is no reason not to use their products, and I would stay with these companies."
- "I have not been contacted by a lower-cost vendor, and I have not heard of

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*Sleep Lab Manager
Southern Medical Center*

3B Medical. I'm not sure how the cheaper products will impact the three top competitors. But unbranded masks should be fine as long as they use safe plastic. These devices are simple."

Reimbursement

- "Thirty percent to 40% of our patients are on Medicare, so the cuts will impact us greatly. We probably can't avoid a 30% reduction in revenue. That includes both of our labs although the payer mix varies. We are trying to make plans, but there is nowhere to run and hide. So we are trying to cast a wider net. We will lose patients from various insurance companies, and we will have to reevaluate."
- "Our reimbursements were down slightly last year, 5%, but it was not enough to affect our business model. The stricter standards will get worse."

Pricing

- "ResMed needs to keep up its current relationships with the sleep labs, vendors and physicians, and it needs to keep costs low. The company sounds as if it is doing something to cut costs, and that is important."
- "People still need machines, masks, so this shouldn't be as impacted. The need for machines and masks will be greater, but the cost will be undercut from here on out. There are CPAP masks that come with lots of smoke and mirrors, but masks are a simple device. It's like coming out with a new model car when you only need the basics."

Product Innovation

- "ResMed and Resironics spend money on making a comfortable mask. They are pretty much the top of the line. I have no mask preference. I like the simple Resironics mask; the simpler the better. But a lot of techs like the ResMed masks because they are a little fancier. ResMed puts more money in research, and the masks are a little more comfortable but more complicated. The more bells, the more things can go wrong."
- "I'm not sure about VPAP for COPD. We see a decent number of people with COPD who may use this although there aren't huge numbers nationwide. This is very specified equipment, and ResMed trying to catch more complex patients."

Miscellaneous

- "A recent Harvard-affiliated medical analysis found that auto-titrating CPAPs were as effective as home-polysomnography, so we can almost cut out the traditional sleep lab. Sleep lab equipment and diagnostic systems will eventually be cut out. However, we have lots of people with comorbidities and pediatric patients; these patients are protected from home studies."
- "Oral devices will never take over the market because they are uncomfortable to wear."

2. Sleep director administrator for a center that was in the 2011 CMS cut region

This source views Resironics' backing by Philips and use by The Blackstone Group LP's (BX) [Apria Healthcare](#) as positives, and said Resironics has come out with excellent masks. Meanwhile, ResMed continues to offer excellent products, and should benefit from its entry into the COPD market. She expects insurance companies to cut reimbursement rates but has not seen it yet in her Round 1 area. Her center prefers CareFusion's equipment for in-home testing.

Market Share

- "I have heard that [Apria is using some ResMed equipment]. They do use a lot of Resironics. Maybe because their systems read remotely, making compliance a little more accessible. It's very likely [Apria is] also thinking about streamlining their setup: get the prescription, know what machine, and get away from the drive-by drop-off, which is very costly for a company because of the cost of getting wheels on the road."

Competition

- "It's really hard to make a call on how ResMed will do. The fact that Philips bought Resironics gives them longevity. ResMed hasn't done anything splashy. I don't think they're being hurt dramatically by Resironics, but they're pretty much plodding along. Resironics is really looking at more hybrid equipment."
- "We're pretty much set with the providers we use that we know give us the service we want. We're careful who we work with. They have to be willing to pick up the phone and put us on a three-way call with the patient. ... We went with a subsidiary of Apria ... plus three to four local companies because they handle insurance companies we need."
- "The home testing companies are comparable, but some are a little more user-friendly and have Wi-Fi capability. We really like CareFusion."

- “Obviously, ResMed and Respirationics are the tried-and-true companies, and we do business with them because their service is excellent and their machines are without service issues, which is key. There are others. I’ve seen a [Puritan Bennett](#) [from Covidien PLC/COV] that’s 10 years old, and Fisher & Paykel does a pretty good job. But they don’t get into VPAP and, until recently, [auto-PAP](#).”

Reimbursement

- “This next round of competitive bidding is a big deal. It depends on how much of your business is Medicare, but it does send a message [to other insurers] to cut reimbursement. What’s good for one is good for all. Nobody has done it yet, but other insurers are starting to take notice. And when you’re making \$3 on a mask, you have to do a lot of volume. It really cuts out the little guy.”
- “The in-home testing changes are affecting us dramatically: patients who might have come to the lab to do a sleep test but now, for insurance company reasons, are being told to do their own study at home. It’s helping more patients get diagnosed, but the doctors aren’t sending us more patients as they don’t care which ones we do.”

Pricing

- “I spoke with a Blue Cross rep yesterday; he brought up the issue that sleep labs’ expenses are going up, so they’re approaching all users asking for higher reimbursement, not decreases. Their profit margins depend upon every study.”

Product Innovation

- “Respirationics let ResMed take the lead on masks. A few of their masks went gangbusters. ResMed’s [Swift FX](#) was on the market three weeks and took No. 1. That’s unbelievable. So they do have a corner on the mask market, but Respirationics has addressed it in a classy manner. Their [Amara](#) mask fits a lot of people; it’s lightweight and has a nice design.”
- “The COPD is a huge market that is evolving. It will make more pulmonary doctors aware of the benefits of using CPAP or VPAP in COPD. We’ve been exposed to a lot of toxic materials, and living in a plastic environment I think we’re going to see more of that.”

Miscellaneous

- “We do not brand our CPAP prescriptions. We had a conversation from the get-go on that. But we do tell them we want auto-PAP, back-up rates and all set up with a humidifier.”

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*Sleep Director Administrator
Sleep Therapy Clinic
(In the 2011 CMS cut region)*

3. Center manager of a Great Plains HME

ResMed will not be affected by reimbursement cuts. All manufacturers will need to cut back on pricing, and ResMed is positioning itself for this. The source will continue to sell prescribed products and has not stocked unbundled supplies. Some of her clients no longer can afford to replace supplies or even buy the initial equipment.

Market Share

- “ResMed is big enough not to get hurt, but I’m really not sure what will happen with the market.”

Competition

- “I don’t know 3B. We haven’t gotten into unbundled products. We are still using other equipment we have in stock. Our physicians mostly scrip for ResMed and Respirationics, and we fill those orders. My understanding is that we will continue to sell these products.”

Reimbursement

- “The Medicare cuts have put a hardship on the people. It stinks. It is really frustrating for all of us. People can no longer afford to replace supplies as they used to. If they break a mask, they may not be able to replace it. Or they just don’t buy the equipment, even if it has been ordered and they need it. We’ve even had a few patients buy equipment and then return it unused

ResMed may have put itself in a better position. It is hard to say. Overseas production could help make products cheaper.

*Center Manager, Sleep Therapy Clinic
Great Plains HME*

because they can't afford it."

- "We don't do a lot of [Humana \[Inc./HUM\]](#) or UnitedHealthcare here. I'm not sure what they are doing."

Pricing

- "ResMed may have put itself in a better position. It is hard to say. Overseas production could help make products cheaper."
- "All the manufacturers will need to be cautious about pricing."

Product Innovation

- N/A

Miscellaneous

- "COPD is not big here. We take care of it by using CPAP or [BPAP](#)."

4. Sleep clinic manager in a Round 2 area; repeat source

This repeat source still thinks ResMed will be hurt slightly more than Resironics, which benefits from a larger product line. ResMed will reap some sales from its VPAP for COPD, but challenging preauthorizations will create a hurdle. Both ResMed and Resironics continue to offer packaged deals in response to clinics' requests for lower pricing; everyone is adjusting to the 35% reimbursement cuts that are set to begin July 1. The clinic rotates prescriptions between ResMed and Resironics but has begun to use some Fisher & Paykel products following an aggressive sales visit.

Market Share

- "I still think the slope of ResMed's growth won't be the same. But a lot [of the cuts] will come from the DME profits."

Competition

- "The [PAP] vendors are still trying to be very aggressive. Same as we talked last time, both ResMed and Resironics are throwing in extras with our purchases. DeVilbiss is making inroads with the VA system. And Fisher & Paykel came in and really pushed to have us use some of theirs, so we're using some. But ResMed and Resironics remain our primaries."
- "I saw 3B at the conference, and I'm not very enthused about their products."

Reimbursement

- N/A

Pricing

- N/A

Product Innovation

- N/A

Miscellaneous

- "ResMed's VPAP for COPD is going to have its place, but preauthorization is a living hell. It's already to a point that insurance companies make it so challenging to do a preauthorization that we often just give up. It's required a lot of resources to do preauthorizations."
- "We issue branded prescriptions 100% of the time. We rotate between ResMed and Resironics."

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*Sleep Clinic Manager
Sleep Therapy Clinic, Round 2 Area*

5. General practitioner who cares for patients with sleep apnea in California; repeat source

ResMed and the other large CPAP companies will cope better with Medicare cuts than smaller competitors. ResMed is positioning itself well, but the company needs to emphasize service, become stronger in selling techniques, reduce product selections, and strengthen quality control so that the new masks are more effective. The COPD market is huge, but VPAP's efficacy for diseased lung tissue remains unclear. All market players may have to cut back on support and increase pricing to compete in the new climate. At the same time, patients on Medicare may be forced to seek less expensive or unbranded products.

Market Share

- “As a large company, ResMed should do as well as the other big companies. Smaller companies will have a harder time with the cuts.”
- “COPD is a huge market, just huge. But I don’t see how a VPAP can give those patients the amount of oxygen they need because their lungs are so damaged. I’m not sure how that would work.”

Competition

- “I have not been approached by unbranded companies. But I certainly wouldn’t use any Chinese products.”

Reimbursement

- “Patients on Medicare may have to turn to unbranded products because they are less expensive.”
- “Insurance has always been an issue although I’m not sure if anything stands out for sleep apnea just yet.”

Pricing

- “Companies will have to cut back on their support and increase their prices to compete with Medicare and insurance cuts. They may also have to cut back on selections.”

Product Innovation

- “The new ResMed mask leaks. I’ve noticed the change this year, and so have my patients. In fact, I’ve tried two new ResMed masks and neither one is very good, so I’m back to my original ResMed mask, which is an old one. I’m not sure what ResMed is doing, but they need to check their quality control.”

Miscellaneous

- “It sounds like ResMed is positioning itself well, but the company needs to concentrate on service. Service is important, and all the big companies need to do better on service. I’m not impressed with any of them.”
- “The company that will come out on top is the company that can sell well. None of the companies are good at selling right now. They all call me every month and try to send me something. Every six months, I’m inundated with all sorts of supplies. ResMed needs to improve in this, at least around here.”

As a large company, ResMed should do as well as the other big companies. Smaller companies will have a harder time with the cuts.

General Practitioner, CA
W/ Sleep Apnea Patients

6. Physician at a large medical center sleep clinic in the Midwest; repeat source

ResMed will be affected by Medicare cuts as manufacturers step in to ease vendor pain. One-third of vendors will be forced out of the market as a result of competitive bidding. Patients with standard sleep apnea use unbranded equipment and generally are not aware of the type. [ResMed VPAP Adapt](#), an [adaptive servo-ventilation \(ASV\)](#), is preferred for complex and central sleep apnea. The COPD market is minimal, however, because vendors cannot afford to stock another specialty box; COPD sales will not boost ResMed. This source has not been approached by unbranded competitors.

Market Share

- “ResMed will be affected. They will have to help out the vendors taking the big hits. Vendors will likely plead a deal with manufacturers to help ease their pain.”
- “The size of the COPD market is minimal, and the impact of VPAP on ResMed sales will be minimal. Vendors can’t afford to stock another specialty box.”

Competition

- “I have not been contacted by lower-cost competitors, 3B Medical or any others.”

Reimbursement

- N/A

Pricing

- “One-third of the vendors will disappear due to competitive bidding.”

The size of the COPD market is minimal, and the impact of VPAP on ResMed sales will be minimal. Vendors can’t afford to stock another specialty box.

Physician
Large Medical Center Sleep Clinic
Midwest

Product Innovation

- N/A

Miscellaneous

- “I use unbranded prescriptions for CPAP, but branded prescriptions for more sophisticated PAP devices such as ASV.”
- “I have no idea what type of unbranded equipment my patients use. I don’t think they know the difference. The preferred brand type is ResMed VPAP Adapt.”

7. Family dentist in California specializing in dental sleep medicine; repeat source

Every manufacturer, including ResMed, and the DME companies will compete in pricing and see their profits affected. ResMed promoted its oral appliance and CPAP machine at the Sleep 2013 Conference. The company will be affected by the increase in home testing and the reduction in reimbursements.

Market Share

- N/A

Competition

- “SleepMed just bought a few companies, including [Watermark](#) [which makes] a home sleep test device. The chairman is [John Sculley](#) from Pepsi and Apple.”

Reimbursement

- “In a conference class on the Affordable Care Act and what sleep medicine clinicians and center managers need to know, [presenters emphasized] that there will be more patients diagnosed, less reimbursement, more home sleep testing, which increased concern for proper diagnosis. There are many things to consider, and they may have an impact on ResMed.”

Pricing

- “All DMEs and the manufacturers will have to cut back. They will compete with each other for lower pricing, and it will cut into everyone’s profits. I’m not sure what will happen.”

Product Innovation

- “ResMed is still promoting their [Narval](#) oral appliance along with the CPAP, but I don’t think it has enough vertical occlusion.”

Miscellaneous

- “The Henry Ford [Health System] [study](#) on snoring shows that sleep apnea is a bigger risk factor for cardiovascular disease than obesity, diabetes, or smoking. Another study links sleep problems with increased prostate cancer risk. This issue is not going away.”
- “Things [in this market] are changing quickly, and everyone is getting on the bandwagon to make some money and sell. One of the lunch classes was on whether sleep apnea was being oversold.”

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*Family Dentist, CA
Specializes in dental sleep medicine*

2) HME AND DME SLEEP APNEA EQUIPMENT SALES PROFESSIONALS

ResMed, Respironics and the entire CPAP industry will take a hit as a result of the CMS cuts, according to these six sources. Lower-cost equipment providers like DeVilbiss and 3B are expected to gain some market share. Equipment pricing will decrease if private insurers push for home testing and reduce their reimbursements for CPAP equipment. The specialty markets like COPD should help ResMed and Respironics, but the market will be limited by low reimbursement and greater regulatory and compliance requirements. The sleep disorder market will grow as more people are diagnosed.

KEY SILO FINDINGS

Market Share

- ResMed will remain an CPAP industry leader despite expected CMS and private insurer cuts.
- 3 of 6 sources think ResMed will suffer more than Respirationics.

Competition

- Respirationics, Fisher & Paykel, SleepMed and 3B are strong ResMed competitors.

Reimbursement

- Private insurers will continue to promote home testing and to follow CMS' suit in reimbursement cuts.
- 1 said UnitedHealth already has cut reimbursement rates.

Pricing

- Pricing is expected to decline further.

Product Innovation

- The specialty breathing disorder market will help ResMed and Respirationics, but the size of the market will be limited by government regulations and patient compliance requirements.

Miscellaneous

- 1 views ResMed as a possible takeover candidate or a likely buyer of a DME to deal more directly with patients.
- 1 believes ResMed will need to become innovative, including possibly selling products through grocery and drug stores.

1. President of a California HME that lost Medicare bidding; repeat source

Despite estimated cuts of 30%, ResMed will remain on top of the market because it focuses on one line and offers the best product. Respirationics' focus is more "scattered." The three large manufacturers may need to become more innovative and turn to such tactics as selling products in grocery or drug stores. The COPD market is large, but will remain the same or drop because healthcare cuts will restrict patient identification and treatment. Poor equipment quality will prevent unbranded sales from increasing. Private insurers will follow Medicare's example.

Market Share

- "ResMed will remain the top one or two. They focus on one line, and their product is the best. Their mask interface is good. Respirationics has multiple lines, and their focus is more scattered."
- "Companies may be dramatically underestimating what will happen to them, but they are only fooling themselves. Everyone will take a giant hit. Smaller companies won't have a leg to stand on. Independent providers will be gone in the next few years. That's unfortunate because they provide a great service to patients."
- "The buyers will be huge. Sleep apnea is not going away. More people will be diagnosed with this problem. The numbers will keep going up."

Competition

- "ResMed, Respirationics and Fisher & Paykel will hurt the most. ResMed cuts will be at 30%, and the company will feel it; they will take a hit. They will still have the volume but not the profit margin. Like the rest of us, they will work harder and get paid less."
- "The percentage of branded and unbranded sales won't change. Unbranded companies will not increase sales because the quality of the equipment still matters. People want to sleep at night. They will either pay extra or purchase online."
- "I've heard of 3B, but I don't know anything about them or their equipment."

Reimbursement

- "My understanding is that the Blues will follow the Medicare suit. Some locations are being hit hard, while those out of the bid area won't be hit as hard."
- "We lost the Medicare bid. Only 15% of all companies, or **800**, won a bid. We bid 25% less allowable, but the winning bidders were 45% to 50% less, which was completely unsustainable to us. This will cut our sales by 50%, depending

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*President, California HME
Lost Medicare Bidding*

on how well the market responds. This will completely decimate our CPAP business. Once the prices adjust, I will have to cut staff.”

Pricing

- N/A

Product Innovation

- “COPD is a big market, but I think it will stay the same or drop. I’m not sure how ResMed’s product will do. Ten percent of the entire population in the nation is treated for COPD or emphysema. But with healthcare cuts, physicians will make 60% to 70% of what they are making now. Our ability to diagnose and treat these patients will drop. The patients won’t be identified as readily, and healthcare workers won’t have time to put in the extra effort.”

Miscellaneous

- “Moving production to Singapore will lower costs, but ResMed will still take a hit. Possibly the big producers will start selling out of grocery or CVS stores.”
- “I’m not sure how well ResMed does in the home diagnostic market. Respironics has the [PDX](#). Watermark [SleepMed] has a decent market share.”
- “Once the cuts happen, there will be a boatload [of companies] out of business. This will turn the whole industry upside down, just like the banking industry.”
- “We are trying to get legislation to understand the situation, but this is very frustrating. We have conversations with senators and congressmen and tell them exactly what will happen, but they hear the exact opposite from CMS.”

2. Vice president of finance for a Pacific Northwest HME; repeat source

ResMed is an excellent company but must continue to offer top-rate service to stay on top of the market. Volume sales should not be affected, but ResMed will need to reduce pricing of machines and equipment. This source is concerned that reduced pricing will result in R&D cutbacks for all companies. ResMed will need to convince pulmonologists that the VPAP is effective and saves lives. Local subcontractors are starting to go out of business. The source was able to negotiate more favorable rate cuts (from 39% to a 20% reduction) from ResMed, Respironics and Fisher & Paykel. Unbranded products are not worth the cost savings. She no longer does business with UnitedHealth, which cut reimbursement rates in her area.

Market Share

- “ResMed is excellent. They stand behind their products. They are great with financing, services and sales reps. To stay on top, they can’t cut their service.”
- “The CPAP market will continue to grow. The market is still there for branded products because of the low quality of some unbranded products. There is a huge difference between branded and unbranded.”

Competition

- “Unbranded products don’t work as well. People may be going with cheaper machines, but saving \$50 to \$60 is not worth the tradeoff economically. We have not been approached by 3B.”

Reimbursement

- “United is a big insurer that is cutting reimbursements, and we do not take United for that reason. The others are following Medicare compliance documents, and they may potentially cut their reimbursements as well.”

Pricing

- “ResMed’s volume sales will not be impacted greatly because the number of people diagnosed will either stay the same or increase, probably increase. Dollar-wise, they will have to reduce, and the price per machine will have to be reduced.”
- “To counter the cuts, we have negotiated more favorable rates with ResMed, Respironics and Fisher & Paykel because of other subcontractors going out of business. Our cuts were 39%, and we negotiated for 20%.”

Product Innovation

To counter the cuts, we have negotiated more favorable rates with ResMed, Respironics and Fisher & Paykel because of other subcontractors going out of business. Our cuts were 39%, and we negotiated for 20%.

VP of Finance, Pacific Northwest HME

- “For the VPAP device to become popular, ResMed will need to work hard to educate the pulmonologists of the need for such as device. They will have to show studies that the VPAP is effective and saves lives. It will take a while for people to embrace this new device. We had training last week on the VPAP. You can adjust the rate of air exchange, starting out slower and ramping up time. You need to have an oxygen concentrator as well, and the machine pushes air into the damaged lung and forces patients to breathe out. The VPAP looks like a CPAP, but I’m not sure of the pricing.”
- “ResMed’s R&D—and that of the other manufacturers—is a big concern. If you take 20% off the price, you don’t have money left for R&D. There is untapped potential [in this market], and the companies could make it up somehow.”

Miscellaneous

- “There is an excellent chance that people will scream. A bill is being proposed in Congress to fight Medicare cuts, and [AARP](#) is 100% behind fighting this. Medicare patients can leave Medicare and switch to a managed care plan. There should be a better and wider base to choose from.”
- “We believe the volumes of patients diagnosed will increase, and we will change the mix [of patients whom] we are selling to. We will not be switching to a less-expensive machine. Overall, the cuts will reduce our revenues by 20%.”
- “Home testing is the wave of the future because it is cheaper. It is great in making a diagnosis, but home testing doesn’t cover titrations, making auto-titrations more essential. Some insurance companies want home testing first although it is not as complete a test. But it is OK for 80% of the people, who auto-self-regulate.”

3. Manager for a large HME/DME

ResMed likely will suffer in the long term as more insurers adopt Medicare’s reimbursement cuts. Humana reportedly has informed customers that providers will be getting Medicare’s allowed rate effective July 1. However, ResMed’s entry into the COPD is positive. The source plans to use the market leaders’ CPAPs, but also will test some of the lower-cost versions. He expects further consolidations in the industry, and said the percentage of branded scrips will decrease.

Market Share

- “ResMed is definitely going to be hurt with the CPAP business, but most of that business is not Medicare. Twenty percent to 25% of CPAP is Medicare. But with the pressure on managed care to adopt these [reimbursement cuts], it may have less of an impact right now but long term it will.”
- “Apria has had a preferred agreement with ResMed for a long time.”

Competition

- “On the surface it looks like what 3B did is rip off what ResMed had, or it could be ResMed is feeling pressure since they’re the only premium provider that gets better results from a compliance standpoint. I honestly don’t know what will happen with that [lawsuit].”
- “As a result [of competitive bidding] there are new providers who don’t have the history of ResMed or ResMed but can enter the market with lower price points. I’ve seen companies now with CPAPs 30% less than ResMed. You’ll see the degradation in [PAP] features. 3B is one of the new providers that I’m most familiar with.”
- “It also depends on who crosses over into the retail world. ResMed is best positioned and tried it in one market where they got blasted. They [put supplies](#) in a Kroger and didn’t deal with insurers.”

Reimbursement

- “Humana already sent out letters to their customers, saying effective July 1 if you use an out-of network provider your provider is going to get the Medicare allowed rate. I have an email forwarded from a customer. ... Humana has an exclusive agreement with Apria, but they had said anyone out of network could stay with their provider, and in fact, those used to be much better rates than the in-network rate.”
- “We’ve had recent RFPs, which normally are not at this time of year but typically done end-of-year. My guess is there will be overhauling [by other insurers]. Once competitive bidding is done ... I would expect some kind of adjustment from private insurers. CMS is already giving more than some of the corporate rates. The larger providers typically pay 60% to 100% of Medicare. They might get \$100, where CMS was paying \$173.”

Humana already sent out letters to their customers, saying effective July 1 if you use an out-of network provider your provider is going to get the Medicare allowed rate.

Manager, Large HME/DME

Pricing

- “All are equally going to get pushed with these prices. ResMed definitely has proven itself as a premium provider and holds that position and does best out of all three. As companies move to cheaper products, compliance stuff and defective products may become issues.”
- “I think the number of branded prescriptions [and branded providers in the unbranded CPAP segment] will decrease. If pricing doesn't get in line for blowers, if a doctor sends in a specific referral, a DME will say, 'We don't do that; call another.' And the second DME says, 'I don't do that.' They may take that referral and lose money on a \$600 but get \$480 to ingratiate themselves. But with fewer providers now, fewer DMEs will be willing to do that. Medicare is not going to require a high-end piece of equipment.”

Product Innovation

- “I think there's some potential there [in COPD for ResMed]. It's not a market that has developed yet. I don't know how much of a market, but I do think there's an opportunity there.”

Miscellaneous

- “Our CPAP sales are pretty consistent. Sales have picked up. I think the number of bid winners is the same, but there's less of a local presence. For example, in one metro area there are six [DMEs] in the market today. ... There are also some companies that know they're not grandfathered in after July 1, and their \$173 rate will drop to \$95 or \$85. So they're calling us now to service that patient.”
- “I don't see why someone doesn't acquire ResMed as Philips did with Respirationics, so they could better cover the cost issues. I expected to see that or for ResMed to buy a small DME company and be able to bid.”

4. Branch manager of an East Coast HME

ResMed and other companies will need to position themselves to work within the current climate. Winners in this market will play the game. The source sells ResMed products and will continue to do so. Insurance reimbursement cuts are following the government guidelines more closely now than in the past.

Market Share

- “The companies who will be the most successful will be actively gauging the market. They will be smarter with business and manage it well. They will be proactive. Cuts will affect everyone. Companies need to change their business model to work with the cuts, no matter what their business is. The ones that end up on top will play the game. They will learn how to save money. In our business it would be to have the patient come and pick up extra oxygen or change from liquid to gas, whatever is more efficient.”

Competition

- “I'm not familiar with 3B or other unbundled products.”

Reimbursement

- “The insurance cuts are following the government guidelines more than they did before, and it will affect pricing.”

Pricing

- “The cuts are also about making patients more responsible.”

Product Innovation

- “The COPD market is fairly big, but I don't know anything about ResMed's new machine. I would have to see it. The same goes for a cardiac oxygen device.”

Miscellaneous

- “Things have been more stringent for the past three, four, five years, and this business is very challenging now.”
- “Government changes have made things more stringent. We are required to do more documentation for billing, and this causes negative feedback and friction from the doctors.”

The insurance cuts are following the government guidelines more than they did before, and it will affect pricing.

Branch Manager, East Coast HME

5. Executive for a DME and patient education organization; repeat source

The whole industry is being hurt by Medicare changes. The source's company prefers Respironics over ResMed, which he described as arrogant, and is using 3B and other lower-cost blowers and masks because of the reduced margins. Many payers are hiring utilization management companies, and some payers now require compliance data on supply reorders.

Market Share

- "Honestly, ResMed has been such an arrogant company. We've done everything in our power to move away from ResMed. ... We're using Respirationics, and we're absolutely looking at 3B. For the price we pay for a ResMed mask, \$100, we're only getting reimbursed \$100 and it takes \$15 to 20 to process it, truck it and work with the patient. We're going to look for lower-priced blower options that provide some data. ... 3B has some machines that provide some data, and they're working on bettering their system. ... Insurance companies will get what they paid for. I'm done subsidizing the insurance companies and giving the patients what's best, because I can't afford to."
- "I hope ResMed takes a hit and is taken down a notch, but I think the whole industry will be hurt."

Competition

- N/A

Reimbursement

- "At the CMS [Round] 2 rates, we don't really want that business. You lose money on just the cost of treatment and cost of goods. You lose money on every transaction."
- "Anthem Blue Cross is not grandfathering anyone, so for any patient who has had a device for say three to four years we have to submit documentation via Medicare guidelines. ... It used to be you did the Medicare 90-day trial and you were good to go and cleared for the rest of time. But now it's every 90 days for the first year, and every year you need to prove 90 days. And any supplies you need to prove compliance."
- "What my payers are doing is hiring these third-party utilization management companies to reduce the number of claims they need to process."

Pricing

- N/A

Product Innovation

- "We're going after the respiratory dysfunction market with the Respirationics' Trilogy. You can get a few here and there. ... I don't think there's enough to make a huge difference in COPD. Maybe they'll be able to fill some of the shortage from CPAP, but it means more marketing and educating physicians and supporting it."

Miscellaneous

- "Cigna has a relationship with [CareCentrix](#) and [CareCentrix's] [Sleep Management Solutions](#), which is too incestuous for us. Unless you're a preferred provider, they're scooping up your patients. SMS calls patients, saying, 'You can use us and you can get supplies from us.' It doesn't seem kosher."
- "At one point reimbursement will be so low there's no business left. Something has to give. Everybody is talking about CPAP and retail with private pay."

I hope ResMed takes a hit and is taken down a notch, but I think the whole industry will be hurt.

*Executive
DME & Patient Education Organization*

6. District manager of a regional DME in the Round 1 area; repeat source

Cuts will affect ResMed slightly more than Respirationics as DMEs move to lower-cost products. DeVilbiss and 3B will gain some business. Both ResMed and Respirationics will benefit from specialty market products although qualifying patients for VPAP devices will be difficult in today's environment. The major insurers are all enacting changes that require more compliance data. This source expects doctors' offices to be deluged with calls after July 1, once patients find out their suppliers have been changed.

Market Share

- "I think Respirationics and ResMed will suffer, but they'll survive by offering different types of equipment. Respirationics Trilogy for ventilator patients and ResMed's VPAP for COPD are more of a specialty market. It will impact ResMed a

little more because they have a quality product and people were willing to pay more for that. But now with such little profit, [DMEs] can't afford to."

- "I think [the manufacturers] will all even out. They'll lose in some areas because of coming down in pricing, and gain in others."

Competition

- "I think DeVilbiss and 3B will get ahead. I haven't heard much about Fisher & Paykel. ResMed and Respiroics will have to come down a little with their prices."
- "I know there was a lot of talk about 3B, but I think there's been a back-away from them because of where they're located. [Parent company [BMC Medical](#) is located in China.] They have had some good equipment in the past, but I don't know if we want to take that risk if they break down. It could end up being more costly for us. Is it really worth a couple extra dollars to risk it?"
- "DeVilbiss has a slightly longer warranty, five years, and is a good piece of equipment so we're using more of that one."

Reimbursement

- "Someone told me Humana had reduced reimbursement. Cigna has low reimbursement. It sets a bad precedent. What happens is we can't give the same standard of care?"
- "Cigna's reimbursement is terrible, but now patients are entered into a state-managed program and are sent for home sleep tests. They use only ResMed or Respiroics equipment and on a wireless modem, so Cigna can see the compliance data. You have to file data on it, which weeds out those patients who can't be compliant."

Pricing

- "More [DME] companies will have to do things they don't want to do—for example, use a particular manufacturer because of a cost point. I'll be contacting more referrals saying, 'I want your business, but if I use the one you specify, you'll have to write a letter why we need to use it over one more cost-effective.' Doctors are going to be swamped with all the rules and administrative work. We'll also see more in-office and group education setups because the CBA margins are so low."

Product Innovation

- "COPD has always been there, but it's really frustrating. COPD can be treated quite effectively by using a VPAP, but it's the qualifications that are so cumbersome for those patients. Some may decide to put them on oxygen and call it a day. It will be good for [ResMed] if they can convince the doctors that the benefits outweigh the difficulties of keeping them qualified. ... Respiroics' Trilogy is not a competitive bid for a ventilator product, so it's easier to qualify the patient."

Miscellaneous

- N/A

I think DeVilbiss and 3B will get ahead. I haven't heard much about Fisher & Paykel. ResMed and Respiroics will have to come down a little with their prices.

*District Manager
Regional DME, Round 1 area*

3) RESMED COMPETITORS

All three sources said some market share is shifting to Respiroics and unbranded CPAP manufacturers. ResMed will remain an industry leader but will be challenged by declining branded prescriptions, poor relationships with DMEs and competitors' aggressive pricing. The Linde Group's (FRA:LIN) [Lincare](#) and Apria have switched from ResMed to Respiroics. Private insurers are expected to follow CMS cuts; one reported hearing that UnitedHealth and Anthem had cut reimbursements. Two sources think the COPD market could be significant and give a boost to ResMed.

KEY SILO FINDINGS

Market Share

- 3 of 3 sources see possible market share shifts; however, ResMed and Respiroics will still dominate the market.
- Respiroics is priced more aggressively and positioned slightly better than ResMed.
- Unbranded manufacturers are expected to gain market share.

Competition

- Resironics is ResMed's toughest competitor.
- Unbranded competitors are expected to gain share.
- [Somnomedics GmbH](#) is a strong home sleep disorder testing company.
- Fisher & Paykel is expected to struggle.

Reimbursement

- 3 sources acknowledged that reimbursement rates had declined. 1 said insurers are encouraging home tests, and 2 expect private payers to follow CMS cuts.

Pricing

- 3 of 3 reported price cuts for COPD equipment.

Product Innovation

- 2 sources think ResMed's new COPD device could generate solid sales.

Miscellaneous

- ResMed's shift of production to Singapore is considered a positive for cost savings.

1. Sleep product manager for medical device company

ResMed and Resironics will continue to dominate the market, especially with their compatible features. Unlike Resironics, ResMed spends a lot on research, but it should be able to save money by moving production to Singapore. ResMed has a weakened presence at Lincare and Apria in addition to the diagnostic market, but specialty areas like COPD may give the company a boost. In light of greater competitive bidding, smaller DME companies will be overtaken by large DMEs, home studies will become more common, and the oral appliance market will increase.

Market Share

- "ResMed and Resironics are the two strong companies; they dominate the market and will continue to do so. They have compatible features that usually work with each other."
- "Asia is the fastest growing market [for sleep apnea]."

Competition

- "Lincare leans toward Resironics, and ResMed should have kept the Apria market."
- "ResMed is not a big player in the diagnostic market. Somnomedics is well known."
- "Fisher & Paykel won't go away, but it will struggle along the way."
- "I haven't heard of 3B."

Reimbursement

- "Competitive bidding will kill the DME. It was already tough, but now the big dogs will put out the small guys. Oxygen is being restricted [by the CMS], and that is ridiculous. They need to keep oxygen coming."
- "The winners will not fight the system. People who work with the system will do just fine. Deep pockets can make it happen; the status quo won't work."
- "We've had no insurance cancellations yet. Some insurers have specified they want home studies unless the patient has a comorbidity, and then the patient qualifies for a study at a sleep lab."

Pricing

- "Prices have been cut; we can't kid ourselves. Now people are in a panic, but we are a product of our own doing. If we use home testing, it will save the industry. Let regular doctors run the tests and then refer their patients to sleep doctors. There should be cheaper tests for apnea; then more people could afford to be tested. The volumes would add to the market."

Product Innovation

- "ResMed does a lot of research; they are always looking for new products. Then Philips makes a copycat. Resironics doesn't spend near the amount of money that ResMed does [to come out with a new product]."

Prices have been cut; we can't kid ourselves. Now people are in a panic, but we are a product of our own doing. If we use home testing, it will save the industry. Let regular doctors run the tests and then refer their patients to sleep doctors. There should be cheaper tests for apnea; then more people could afford to be tested. The volumes would add to the market.

*Sleep Product Manager
Medical Device Company*

- “The COPD market is significant. A ventilating machine that costs \$300 to \$500 to build sells for \$2,500 to \$5,000. Electronics are all the same in these machines, BPAP, CPAP, VPAP. You don’t waste a lot of technology. Reusing what is already working just might work for ResMed.”
- “Given the reimbursement cuts, manufacturers are now grabbing onto the oral appliance market. People are jumping on board because they have a higher mark-up rate. [Walter Reed](#), the government hospital, is plugging them.”
- “The current CPAP model can’t sustain itself. There will be changes in the sleep market, new products coming out. There will be more complicated procedures, using technology or electrical stimulus or implants. There will be something, and manufacturers need to be looking ahead. We are always looking at new therapies.”

Miscellaneous

- “Producing in Singapore should save ResMed some money.”
- “CPAP manufacturers used to make lots of money on the machines. But reimbursements dropped, and the companies started pushing masks. First you needed to change the mask infrequently; now they recommend that you change the mask every few months. It’s become a disposable market and very lucrative.”

2. U.S. vice president for a China-based CPAP manufacturer

Determining which companies will remain on top is difficult. The source reported a conflict between ResMed, which controls physician scrips, and the DME companies, which prefer generic scrips. ResMed offers the better interfaces, yet Respiroics offers the better blower, is more aggressive in pricing, and has gained business from Lincare and Apria. Fisher & Paykel is not involved in branded scrips and is not price-competitive with Respiroics. Medicare cuts will trigger higher unbranded sales.

Market Share

- “At present, ResMed controls physician scripting. But they now find themselves in an adversarial position with the DMEs over purchasing. The DMEs are actively trying to persuade referral sources to script generically and allow

Competition

- “ResMed gets the nod on interfaces, and Respiroics is viewed as having the better blower line. Respiroics is far more aggressive with pricing and appears to have won critical business from both Lincare and Apria. ResMed lost out on Apria, which went with Respiroics.”
- “Fisher & Paykel seems to have little traction, as it is not price-competitive with Respiroics and does not have branded scripting taking place at the physician level.”

Reimbursement

- “The Medicare cuts have changed the conversation with DMEs and fueled a move toward lowest-cost provider.”
- “We have heard, but have not confirmed, that [UnitedHealth] and Anthem have both cut reimbursements.”

Pricing

- “Respiroics unveiled a new SE model at Sleep 2013 last week aimed at the CBA [competitive bidding area] market. This no-frills model is priced below \$150 and will drag down general market pricing. I have no idea what they were thinking.”

Product Innovation

- N/A

Miscellaneous

- “Regarding the percentage of branded scrips. ... We encounter 45% of blower sales that are branded scripted and 60% of interface [masks and hoses] sales that are branded.”

ResMed gets the nod on interfaces, and Respiroics is viewed as having the better blower line. Respiroics is far more aggressive with pricing and appears to have won critical business from both Lincare and Apria. ResMed lost out on Apria, which went with Respiroics.

*U.S. VP, CPAP Manufacturer
China-based*

3. CEO of a sleep apnea therapy device company

The COPD market could be significant for ResMed, but this CEO thinks Respironics will outperform ResMed through its broader and more competitively priced product line. He expects private insurers to follow CMS in reducing CPAP reimbursement. His company's sales have suffered in the reimbursed market, but is benefiting from cash sales through DMEs.

Market Share

- "I think Respironics will do a little better [than ResMed]. They have a broader product line and they're a better, more competitive priced company."
- "In the long run ResMed may be affected, but they clearly have the best equipment on the market for what they do. They've become very effective in establishing themselves with physicians and DMEs and have a very active sales force and excellent mask products."

Competition

- "As for the outliers, ResMed is suing everybody. I don't know if it [will force](#) BMC out of the market. 3B [says](#) they'll litigate. Those products are clearly inferior, but when DMEs are faced with such huge cuts in margins they're forced into it."
- "ResMed is getting aggressive in protecting their turf. In Europe, the Chinese and Taiwanese hit the market with low-cost products. Respironics did respond in Germany with extremely low prices. But ResMed did not, so they have to be hurting."

Reimbursement

- "Who knows what's going to happen. Forty-seven percent in reimbursement is going to hurt. That 47% is only a few Medicare patients, but it's a lock that private pay will follow suit. United Healthcare just announced they're following suit on cuts to diabetic supplies, so my sense is they will follow through with CPAP cuts. I have to believe they're talking about it and wouldn't be surprised if it happens quickly. I think it's a high probability. The question is how much and when. On Medbill.net, Humana issued a [letter](#) saying they'll follow suit with diabetes supplies."

Pricing

- N/A

Product Innovation

- "I think [ResMed's] VPAP for COPD could be a big deal, could be a significant market."

Miscellaneous

- "The branded scrip market is decreasing for a lot of reasons, but the reimbursement cuts will play a role there. Physicians will write a scrip for a ResMed product and DMEs won't fill it. Ultimately, docs will have to quit writing scrips for products."
- "Lincare has very high Medicare use, so that hurts them a lot. Smaller, regional companies have more private pay."

Who knows what's going to happen. Forty-seven percent in reimbursement is going to hurt. That 47% is only a few Medicare patients, but it's a lock that private pay will follow suit. United Healthcare just announced they're following suit on cuts to diabetic supplies, so my sense is they will follow through with CPAP cuts.

CEO
Sleep Apnea Therapy Device Company

4) THIRD-PARTY PAYERS

Two insurance professionals and one Medicare advisor expect CPAP equipment prices to decline and unbranded products to gain market share. ResMed could lose some share but is expected to continue as an industry leader. One source said ResMed sales will increase because of the anticipated increase in sleep disorder diagnosis. One source said insurance company reimbursement is declining because of regulations, high taxes and fees according to one source, but another has not experienced reimbursement cuts yet. ResMed's success with its new COPD device will depend on the cost and the sales effort, especially in regions of high tobacco use.

KEY SILO FINDINGS

Market Share

- 2 sources think ResMed will lose share but still lead the industry.
- 1 source said ResMed will experience sales gains because of the increasing diagnosis of sleep disorders.

Competition

- 3 of 3 expect unbranded CPAP manufacturers to gain market share.

Reimbursement

- Cuts from private insurers are rumored and expected due to increasing costs of doing business.

Pricing

- 3 of 3 expect prices for CPAP equipment to decline.

Product Innovation

- ResMed's new COPD product could do well if properly priced, marketed and targeted to areas with high tobacco use.

Miscellaneous

- 1 source expects healthcare rationing because of doctor shortages and 30 million new people with coverage.

1. Health insurance consultant in North Carolina

ResMed and its competitors will be affected equally, and the source doubts moving production to Singapore will be beneficial. If people cannot afford branded equipment, they will turn to those with lower-priced devices. Insurance companies are being squeezed by increased regulations, taxes and fees, and are being forced to reduce reimbursements to stay in business. Changes to HMEs and DMEs will be coming soon.

Market Share

- "ResMed and the other big players will be impacted equally. I can't see just one being impacted more than the others. They will all have problems."
- "I've used ResMed CPAP and masks, and their equipment is good. But that doesn't mean they won't be affected. No matter how good a product is, if people can't afford it, they can't afford it."

Competition

- "Unbranded products, we'll see more of them. They will increase because people buy what they can afford. It doesn't matter what fancy equipment is available if people can't afford it. Americans will have to make up the difference on their own. More people will have to dip further into their pockets."

Reimbursement

- "Do you know why insurance companies are reducing reimbursements? It's because of increased regulations and more taxes and fees. The cost of business has gone up. It's more than a trend; it's reality."

Pricing

- N/A

Product Innovation

- "I know a lot of people have COPD, but I don't know if the ResMed mask is something they could use or how big the market is."

Miscellaneous

- "Moving production from California to Singapore isn't going to help anyone. ResMed is just creating unemployment problems here in the United States."
- "Medicare cuts and the impending healthcare changes will only have a negative impact on the sleep apnea market. By January, there will be \$600 billion in cutbacks for benefits and reimbursements. Everything will be cut back. The cuts will impact everyone but especially seniors, who don't have cash for equipment. Many seniors don't have pensions and investments, and they can't afford extras. The impact will go down to the middle and lower classes."
- "The Jan. 1 healthcare system will change everything dramatically. Most people don't understand the Affordable Care Act. At 28,000 pages, it is too large to understand. But come next year, we'll have two huge problems: 1) 30

Unbranded products, we'll see more of them. They will increase because people buy what they can afford. It doesn't matter what fancy equipment is available if people can't afford it. Americans will have to make up the difference on their own. More people will have to dip further into their pockets.

*Health Insurance Consultant
North Carolina*

million new people will be in the system, and 2) there will be less primary care because doctors 55 years and older will retire rather than take further cutbacks. It will be healthcare rationing all the way down the line.”

2. Health insurance sales representative in the Midwest

ResMed is dedicated to treating sleep apnea and will continue to stay on top of the market. However, it and other large manufacturers will need to reduce pricing. ResMed may be able to enter the COPD market, depending on its marketing and price range. Unbundled equipment and home testing will save patients money. This source has heard nothing official about his company reducing reimbursements for sleep apnea.

Market Share

- “ResMed is dedicated to the apnea market. They won’t let themselves slip.”

Competition

- “Unbundled blowers and accessories may be the way to go for people to save some money. Some of the equipment is on par with those of the big guys.”

Reimbursement

- “Medicare plans change every year, and they will continue to change. We haven’t seen the last of the payment cuts.”
- “My company requires preauthorization for sleep study tests, among other things, even if a patient is on Medicare, except for [Medicare Advantage](#).”
- “Sales reps are the last to know about any [company] changes. I have heard rumors that my company will match Medicare’s cuts for sleep apnea equipment, but I have heard nothing official. And if that happens, I don’t know when that would start.”

Pricing

- “ResMed, all the big guys, will need to cut pricing.”

Product Innovation

- “A lot of the older people have COPD; it is a devastating illness, and there are no treatments that I know of. How ResMed does in this market would depend on how they sell it, how much it costs.”

Miscellaneous

- “This market is only growing with increased home testing. This will save everyone money—except, of course, the sleep centers.”

I have heard rumors that my company will match Medicare’s cuts for sleep apnea equipment, but I have heard nothing official. And if that happens, I don’t know when that would start.

*Health Insurance Sales Representative
Midwest*

3. Medicare advisor on the West Coast

All manufacturers in this market, including ResMed, will need to lower pricing. Sleep apnea is an important field, and as more people are diagnosed, sales will increase. The COPD market is variable, and ResMed will need to tread carefully to be successful. Less expensive, unbundled products are not necessarily worse in quality, and their pricing will appeal to many people.

Market Share

- “The larger companies know the importance of this market and the fact that it is growing. We haven’t even skimmed the surface of people who have the disorder. As more patients are diagnosed, company sales will increase.”

Competition

- “Unbundled products are not necessarily worse products. You can only pay what your budget can afford. If you only have enough money to live on and you can’t afford all medications, you will cut those pills in half and make them last.”

Reimbursement

- “Typically, Medicare deems what they will pay on. In the past it has been 80%, with supplemental picking up the remaining 20%. We will soon see different reimbursement configurations. People may be picking up more of the tab.”

Pricing

- “I would hope the companies, including ResMed, would realize that everyone needs to lower pricing. We all need to work together on this.”

Product Innovation

- “Whether ResMed is successful in COPD will really depend on location and the tobacco use in that area. They will need to look at this area carefully.”

Miscellaneous

- “If you want long-term care insurance and have sleep apnea, you must use a CPAP and be compliant.”

5) INDUSTRY SPECIALISTS

These five sources named ResMed and Respironics as the No.1 and 2 providers of CPAP equipment, and do not expect any major CPAP industry share shifts as a result of CMS cuts scheduled for July. One source said Respironics may have a slight advantage over ResMed because of its lower pricing. ResMed is fighting to keep share through litigation that smaller manufacturers may not have the resources to counter. Unbranded, lower-cost equipment providers could claim some share, but the equipment’s low quality will limit their gains. Fisher & Paykel is a distant No. 3 provider. Two sources expect private insurers to follow CMS cuts. One source reported that Blue Cross and Blue Shield of Tennessee has canceled HME/DME contracts and may reduce its reimbursement rates to be in line with the CMS. The sleep disorder patient population will grow. One trade association executive is confident that the CMS cuts will be delayed, giving his organization time to pitch for a replacement to the bidding program.

KEY SILO FINDINGS

Market Share

- No major shifts will occur in market share as related to CMS cuts.
- Low-cost, unbranded manufacturers may gain some share in the short run, but quality issues will limit their adoption.

Competition

- Respironics is ResMed’s major competition; Fisher & Paykel provides some competition as well.
- 1 source said ResMed is fighting to maintain its share through law suits.

Reimbursement

- 2 sources expect private insurers to reduce reimbursement rates in line with CMS cuts.

Pricing

- Prices are declining and will hurt DMEs/HMEs more than manufacturers.

Product Innovation

- ResMed is expected to do well in the COPD market; however, it is costly to service this patient population.

Miscellaneous

- 1 source is confident that the CMS cuts will be delayed and eventually rescinded.
- The trucking industry will bring about major growth in sleep apnea diagnoses and treatment as regulations are enacted to test commercial drivers. ResMed leads in serving this market niche.

1. Executive director of trade association; repeat source

Medicare bidding will not affect ResMed or the large manufacturers, but it will hurt retailers. The COPD market is in need of an effective treatment, but selling the procedure will be time-consuming and costly. ResMed and Respironics are both confident in their equipment sales, while Fisher & Paykel is more about selling supplies. These three manufacturers will need effective salespeople to increase their market share. Unbranded manufacturers will take advantage of this market, but will be hindered by their equipment’s poor quality. Baby boomers are more affluent and likely will pay for products through cash transactions. Insurers are looking to save money, and in at least one state, contracts have been canceled. This source is confident that Congress will delay or rescind Medicare bidding this year.

Market Share

- “I would expect ResMed to stay right on top. The July 1 bidding will be a blip; it won’t last for long. The bidding will not have a long-term effect on the top manufacturers. The big guys won’t allow this to impact them. It won’t be significant to them. The retailers will be hurt the most.”

Competition

- “ResMed and Respiroics have a remarkable dichotomy, with their supplies matching each other’s machines. You don’t see this very often. Because they have equipment sales, they live with the fact that there are a number of smaller players that have done well with accessories.”
- “Fisher & Paykel Healthcare sales people are less concerned about selling equipment than selling supplies.”
- “We will see more variety in the local CPAP markets. The large companies will need to have good salespeople to increase their percentage of sales.”
- “The unbranded companies will try to be successful. They should really take advantage of this opportunity, but I doubt if their products will be of the quality to change market share. If CPAP equipment doesn’t work well, it is useless. People always quit using poor equipment, and it becomes an expensive doorstop.”

Reimbursement

- “Insurers are looking to save money and use the bid rights given to them. They will take any excuse to do so. Blue Cross has [canceled contracts](#) in Tennessee. Blue Cross and Blue Shield have suggested that they will reduce rates by the same percentage as Medicare has. They think they can get away with poor service and poor products. [Our state’s] Blue Cross is not involved although they will make rate adjustments in July. They don’t want subscribers to complain.”
- “Medicare Advantage pays the highest rates, but this will change after the bidding takes effect. Medicare Advantage will not be able to offer a refuge. Blue Cross could be a Medicare Advantage plan, but it will adopt the standard Medicare rates.”
- “Insurers need to understand that 45% rate cuts aren’t sustainable. This market does not have high margins. Bidding is designed to push small companies with weak credit out of business and leave the big companies in. The small companies will bankrupt themselves at the end of three years of contracts, and financially stronger companies will be weaker. You will end up with two to three companies doing business.”
- “Medicare was supposed to pay 80% of sleep apnea cost, but it really only pays 60%.”
- “I haven’t seen Medicare screw up so visibly as they have now. There’s no transparency in the process. They are turning down large companies with years of proven experience and giving contracts to newly formed, smaller companies with no track record, no experience, no accreditation for their products. These companies don’t know what they are doing, and they will be folding within a matter of years.”

Pricing

- N/A

Product Innovation

- “ResMed will need to prove that its COPD treatment [VPAP] is new, different, effective and safe for home use. They need to do a good selling job. But there will be a cost involved; it is an expensive presentation. The COPD market will depend on a lot on the coverage you get from Medicare. I’m not sure if they’ve made progress for a separate code or if they will pay for it. This is a long and complicated process. COPD is really misdiagnosed a lot in people that don’t really have it, so that could be in issue. However, if you start treatment early, maybe there will be an effect.”

Miscellaneous

- “I’m more optimistic now than I’ve ever been that competitive bidding will be delayed. We are [catching](#) Medicare ‘cooking the books,’ and this is more widespread than was previously suspected. CMS has been extending their own set deadlines, in direct violation of their own rules. They’ve issued multiple contracts to small vendors that didn’t qualify. There are hundreds of winners without licenses, and vendors are trying to extend the deadline so they can get licenses. These vendors were hoping to get subcontractors to work the business or were hoping to sell their business, but find they can’t do either one.”
- “If bidding does start on July 1, things will fall apart in 60 days if people can’t get the equipment they need. The real question is, how long will the dip last? It may cause a reduction in growth rate, but it won’t have a long-term effect.”

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Executive Director, Trade Association

- “If we succeed in getting bidding replaced, then reductions will be rescinded, and prices will go back up.”

2. Owner of a sleep apnea home diagnostic center

ResMed will remain the market leader and will not be affected by Medicare cuts. Respiroics also makes reliable products and will survive the changes. ResMed may do well in the large COPD market, and it could expand into the growing home diagnostic market. Sleep apnea is an untapped market, with 80% of affected people [undiagnosed](#).

Market Share

- “ResMed and the big companies won’t be hurt by the cuts. Sleep apnea is more visible, and people are thinking about it more. People will always need masks and tubing; they will buy accessories.”
- “ResMed will still be the leader. The company is doing very well right now, and they won’t jump ship now. There are still new products to be developed. ResMed might go more into the home testing market.”
- “Sleep apnea is largely an untapped market. We need to work on reaching the people. Right now, in the public’s eye, insomnia eclipses sleep apnea.”

Competition

- “Respiroics also makes good products and should not be affected by the cuts.”

Reimbursement

- N/A

Pricing

- N/A

Product Innovation

- “The COPD market is pretty big, and those people require more expensive equipment. It could be a big market for ResMed. While oxygen will help them sleep better, it won’t help their daytime alertness.”

Miscellaneous

- “Sleep studies have taken a major hit, and there is a rapid movement toward less-expensive home sleep studies.”

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*Owner
Sleep Apnea Home Diagnostic Center*

3. Sleep apnea consultant and former sleep disorder program director; repeat source

Respiroics holds the upper hand and benefits from Philips’ deeper pockets and cheaper products. ResMed has excellent products and is fighting to keep share through lawsuits. The source cited an example of a new, naïve DME owner being awarded multiple contracts in the competitive bidding process, and expects small DMEs to be pushed out of business. He was not aware of other insurer following the CMS’ reimbursement cuts but expects it to occur.

Market Share

- “If I was a betting person, I would put it on Respiroics.”
- “ResMed is scrambling too.”

Competition

- “Who knows if 3B has the money to put up for legal expense? ResMed has deep pockets. Philips’ Respiroics has deeper pockets and cheaper products.”

Reimbursement

- “I haven’t heard of other insurers following suit, but you know now history proves itself. If Medicare can get away with it, others will follow suit.”

Pricing

- N/A

Product Innovation

I haven’t heard of other insurers following suit, but you know now history proves itself. If Medicare can get away with it, others will follow suit.

*Sleep Apnea Consultant &
Former Sleep Disorder Program
Director*

- “ResMed going into COPD—you’re going to see more of that type of expansion. You’re also going to see more like Resironics’ inexpensive ventilator.”

Miscellaneous

- “The person who is going to get hurt is the patient. No one can provide the education and follow-up needed. I’ve seen some situations where they can’t even afford to drop the equipment off and people are told they have to come in and get it. Some don’t even drive; what are you supposed to do for them?”
- “There are people getting into this business who shouldn’t. I know this well-to-do person who just sold his business and decided to get into DME. He bid and won several 100 locations. He’s never been in DME, and now he’s responsible for a hundred. He had no idea.”

4. Medical advocate for a trucking association

The trucking business is a sleep industry niche that will be required to use specific CPAPs in the near future. ResMed has worked hard to provide appropriate equipment for the industry, while Resironics is becoming more visible. Both companies should continue to do well despite competition from smaller manufacturers. Unbranded companies will not make an industry-specific CPAP. Oral appliance groups are starting to market heavily to the trucking sector, but the appliances do not meet industry specifications.

Market Share

- “Both ResMed and Philips Resironics will do well with the truckers. I can’t address Medicare issues because truckers aren’t on Medicare. However, we have insurance. Even if insurance reimbursement lowers, we need CPAPs that work in our industry. We need to pay the price.”
- “ResMed is well placed to take advantage of the increase in demand for CPAPs in the truck driving industry. We are a specialty niche of sleep medicine. They specifically went to bat for this market. Their newest CPAP, the ResMed [S9](#), has design features that specifically meet the hard conditions of the sleeper cab. It has a 12-volt power supply that is not sensitive to moisture damage. The flow sensors are designed to prevent water from sloshing while one driver is sleeping with a CPAP and another driver is driving. They are working on a humidification problem now.”

Competition

- “Philips Resironics also has done its homework. They are trying to be present and visible to the trucking industry. Philips is at the truck shows, but ResMed is not.”
- “Fisher & Paykel has an [RT](#) series and a new [ICON](#) series, with a USB-capable card to allow drivers to send in data. The new machine has Wi-Fi. DeVilbiss Healthcare has also come to talk to us about their CPAP.”
- “Somnomedics makes a portable CPAP, with 3G wireless capability to allow data transfer. They have done fairly good marketing work. But the machine is low power, not an auto-titrator. Solo drivers pull off the road to sleep and use their CPAP. If they don’t have a portable CPAP or need an auto-titrate machine, then they need to idle the engine while using the CPAP. You can only do this in a few states because of environmental concerns.”

Reimbursement

- N/A

Pricing

- N/A

Product Innovation

- N/A

Miscellaneous

- “Somewhere in the neighborhood of 10% to 30% of truck drivers have sleep apnea. It’s hard to say how many truck drivers there are. Any CPAP that a trucker uses needs to be in full compliance with requirements and must be a data

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Medical Advocate, Trucking Association

efficacy machine. Most companies require data every three months to once a year, you need to do a new DOT medical every year, and you need to show compliance the year before.”

- “ResMed makes a better CPAP that is intentionally above testing. It is the most expensive on the market. You can’t break the ResMed CPAP, and we don’t get complaints from drivers who use it.”
- “Since 2006, ResMed has made ongoing efforts to meet our needs, and from their statement of earnings, it appears that we have increased sales and profits to ResMed.”
- “All commercial motor vehicle operators must hold a DOT medical card. The DOT is ready to issue guidance to examiners or code of federal regulations to require screening for and testing for sleep apnea. Drivers with a BMI greater than 35 would absolutely need to get tested. If you are diagnosed with sleep apnea, you have to prove that you are under current and effective treatment to retain your job. The trick is that people with BMIs greater than 35 are not covered by most health insurances. This change has been in the pipeline since 2006.”

5. Executive of a nonprofit organization focused on sleep apnea; repeat source

Manufacturers’ margins and DMEs will be squeezed with this next round of CMS cuts, but they also will benefit from increased patient volume related to healthcare reform. The source’s association is trying to educate the CMS on patient compliance issues that are resulting from the cuts. He views SleepMed and [NovaSom Inc.](#) as leaders in home testing, and does not see COPD becoming a significant market for ResMed’s VPAP. More patients will purchase their own equipment because of insurance hassles.

Market Share

- “I think [the manufacturers’] margins are going to suffer. ... But healthcare in 2014 will be bringing a lot of new people in who need coverage and who will be diagnosed [with sleep apnea]. It’s one of those situations that they lose in price but they make it up in volume. I see it that way versus not being able to maintain the level of income they’re getting. There are a lot of people out there with sleep apnea who are undiagnosed. We’re still at the tip of the iceberg. There’s a lot to be done and using [CPAP] devices is still the best way to address this condition.”
- “My sense is Philips Respironics and ResMed are still jockeying for first and second, and they’re selling masks and CPAPs hand over fist. The Philips marketing force is so entrenched. It’s going to be difficult to come out of nowhere and offer an alternative through the normal channels. I think competitors to them will have to be very sophisticated.”
- “[With the next round of cuts] I do think everybody will come down a peg. Probably the lesser players out there will decide not to spend the money on marketing.”

I think [the manufacturers’] margins are going to suffer. ... But healthcare in 2014 will be bringing a lot of new people in who need coverage and who will be diagnosed [with sleep apnea]. It’s one of those situations that they lose in price but they make it up in volume.

*Executive
Nonprofit Sleep Apnea Organization*

Competition

- “I just got back from the [Associated Professional Sleep Societies](#) meeting. They had a number of competitors selling equipment. One was [Apex Medical \[Corp./TPE:4106\]](#), which was under private label and is starting to sell these. They don’t have a distribution channel but are trying to get it in front of doctors who might tell patients they saw a good alternative machine. But first and second are so far ahead, even Fisher & Paykel is just nipping at their heels.”
- “In home testing, SleepMed and NovaSom are the new kids on the block and give others a run for the money. They do the testing, and the doctor will prescribe equipment, whether it’s ResMed, Philips or Fisher & Paykel. ResMed has a home testing device that works, their Type III [ApneaLink](#), and Philips Respironics has a home sleep testing device.”

Reimbursement

- N/A

Pricing

- “It’s a lose-lose for everybody. The institution of competitive bidding in the market makes it harder for DME companies to participate—primarily making it difficult to provide a service-based delivery of the equipment and also restricting the ability of patients continuing to work with suppliers they feel comfortable with.”

Product Innovation

- “ResMed’s COPD device is an additional indication. It doesn’t seem to be particularly dramatic or revolutionary. ... I know there are patients out there with COPD who have sleep apnea that might benefit from having a little more air, more than just oxygen. That’s new, but I don’t think it would be considered a huge market.”

Miscellaneous

- “Maybe in feeding tubes or wheelchairs [these types of cuts] work. ... With CPAP there’s a bit of a learning curve for most people. As a result of that, CMS is going to find itself with a significant number [of patients] who can’t comply with the 90-day rule—four hours, 70% of the night for a 30-day period over 90 days.”

Secondary Sources

The following four secondary sources addressed low-cost competitors’ pressure on ResMed, industry concerns over an insufficient number of suppliers in Tennessee, ResMed’s lawsuit against 3B Products, and ResMed’s plans for innovation.

➤ June 4 PropThink [article](#)

ResMed is facing strong headwinds from a rise in new low-cost competitors like 3B, as well as from reduced government reimbursements for CPAP devices and slowing CPAP mask sales. 3B is fighting back by exposing the real cost of producing devices through paid ads.

- “ResMed Inc. (RMD), a developer of continuous positive airway pressure (CPAP) devices, is suing fellow CPAP manufacturer and low-cost competitor 3B Medical for patent infringement. But ResMed’s motives for the lawsuit are more aggressive than defensive in our view, and we believe that ResMed is well aware that the CPAP market is beginning to work against its successful but aggressive marketing efforts.”
- “PropThink has been skeptical of RMD’s ability to sustain its meteoric bottom-line growth for a few reasons, including drastically reduced government reimbursement on CPAP devices following two rounds of competitive bidding from the Centers’ for Medicare and Medicaid (CMS) and the company’s high gross margins, which will have to change if the top-line takes a hit. The news that ResMed is making a concerted effort to stifle a new low-cost competitor is in-line with our belief that RMD has found its top and that management is well aware.”
- “While the company reported modest upside to EPS expectations in the first quarter of 2013 (RMD’s Fiscal 3Q), revenues missed analyst expectations, the first sign that growth prospects are at risk when the Medicare Competitive Bidding reimbursement cuts kick in (July 2013).”
- “More troubling than the revenue shortfall, the company’s lead growth driver, sales of nasal CPAP masks, has slowed in both the U.S. and in international markets.”
- “Is this lawsuit about more than infringement? 3B produces low-cost and non-branded CPAP equipment and launched its product lines in the U.S. just eight months ago into a market currently dominated by ResMed and Phillips Respironics.”
- “Privately held 3B, a branch of BMC Medical, has been growing rapidly since launch in response to what they consider a quickly changing market. 3B’s Sales Manager Susan Craig in a March interview affirmed our view that Durable Medical Equipment (DME) suppliers are under strong pressure to lower costs following the latest round of CMS cuts, and that less expensive products are the simplest solution.”
- “3B’s commercial strategy relies in-part on these CMS changes steering DME and HME (Home Medical Equipment) suppliers in search of less expensive CPAP technology. Most of 3B’s devices sell for nearly half the price of ResMed’s, and, reading between the lines, the fact that ResMed is directly targeting a low-cost competitor with a patent infringement suit is telling. It seems the Wall Street Journal’s recent article ‘Cashed-Up ResMed Mulls \$1 Billion Question’ speculating on RMD’s capital use could also include initiatives to stave off competition using legal pathways.”
- “ResMed on its latest earnings call mentioned rising competition from both Phillips [Respironics] and Fisher Paykel, two of the larger branded competitors in the nasal CPAP segment. These companies have new products going out to the market and are also dealing with the CMS reimbursement cut pressures, and both have the wherewithal to adjust prices to gain share.”

➤ June 18 [article](#) from *The Tennessean*

None of the 30 suppliers selected by the Medicare program for shipping medical equipment met Tennessee’s licensing requirements, prompting concerns over options for Medicare customers in the state.

- “The federal Medicare program has dropped nearly a third of the companies chosen to continue supplying home medical equipment to beneficiaries statewide, leaving even fewer suppliers as part of its controversial competitive bidding program set to kick off in Tennessee in less than two weeks.”
- “The contracts were voided because those 30 out-of-state suppliers that had won didn’t meet Tennessee licensing requirements when they submitted bids, said Marilyn Tavenner, administrator of the Centers for Medicare and Medicaid Services.”
- “‘This is government at its worst,’ said Ben Shapiro, chief operating officer of Ed Medical, a Hendersonville-based supplier bracing to lose a quarter of its revenue because it didn’t win a local contract. ‘It will create a real access problem. It’s just going to disrupt the whole competitiveness that now exists in the marketplace.’”
- “‘Last week, more than 200 members of Congress wrote CMS urging a delay in implementing the latest round of the program amid concerns about its structure and licensure issues, such as the one raised in Tennessee.’”
- “‘The Tennessee delegation wants to make absolutely certain that patients have reliable access to the durable medical equipment supplies that they need, that the law is followed, and that Tennessee businesses are given a level playing field,’ said U.S. Rep. Phil Roe, R-TN.”
- “‘I fear that the winning bid rates have been inaccurately calculated given the inclusion of now voided bids, and I worry that Medicare beneficiaries in Tennessee will not have sufficient options to receive necessary durable medical equipment given the large number of voided bids,’ said U.S. Rep. Marsha Blackburn, R-Brentwood. ‘Patients in Tennessee could suffer the access-to-care issues that may arise given the volume of voided bids. Finally, I continue to have reservations about this program going live in less than two weeks with potentially similar problems in other states.’”
- “‘Competitive bidding is working and is saving taxpayers and beneficiaries billions of dollars,’ she said. ‘We remain confident that seniors will have access to their equipment, (and) savings will continue.’”

➤ **June 5 [article](#) from *The Wall Street Journal***

ResMed has filed a patent infringement lawsuit against BMC Medical Co. and its 3B Products.

- “ResMed, an innovator and pioneer in developing products for the treatment of sleep-disordered breathing and respiratory conditions, has filed a lawsuit in U.S. Federal Court, Southern District of California in San Diego, to stop infringement of ResMed patents.”
- “ResMed filed the action against Chinese medical device manufacturer BMC Medical Co., Ltd. and its U.S. sales subsidiary, 3B Products, LLC, asserting patent infringement by: The RESmart CPAP and RESmart Auto CPAP devices [and] the Willows nasal pillows patient interface and the iVolve nasal mask.”
- “ResMed further filed a request to add BMC to its pending International Trade Commission (ITC) case against Taiwanese manufacturer APEX to stop the importation and sales of these products in the United States.”
- “The ITC case against APEX, filed March 27, 2013, also named Medical Depot, Inc., doing business as Drive Medical Design and Manufacturing, in the patent infringement case. On May 30, Drive Medical Design and Manufacturing filed papers stating that it is prepared to enter into a consent decree promising to stop importation and sales of the APEX products named in the ITC proceeding.”

➤ **April 26 HME News [article](#)**

ResMed management plans to stay ahead through innovation and announced a three-market growth strategy. Management addressed the pending 47% cuts from CMS, saying that prices typically decline 3% to 5% per year but that this situation could accelerate the decline beyond normal rates.

- “‘We plan to stay ahead of the game by constantly innovating,’ said Peter Farrell, executive chairman. ‘We’re going to provide in the near future smaller, quieter and more comfortable masks.’”
- “‘In the hospital and homecare vent and humidification market, we have a leadership position in Western Europe, but in the U.S. market, there’s significant room for share growth,’ Mick Farrell said. ‘There’s multiple hundreds of millions of dollars of potential.’”
- “‘In heart failure, ResMed is still in the process of conducting a study to determine whether or not managing CSR-CSA (Cheyne-Stokes respiration with central sleep apnea) with the company’s adaptive servo-ventilation technology increases survival rates and decreases hospitalizations.’”
- “‘One of few gray clouds on the horizon: Medicare’s competitive bidding program. ... ‘There’s a traditional 3% to 5% annual reduction in pricing,’ Mick Farrell said. ‘Could this push (the reduction) a little beyond that, certainly.’”

Additional research by Renee Euchner and Linda Richards

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