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Inogen, Inc. (INGN)

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CORPORATE PARTICIPANTS

Nabil Shabshab

President, Chief Executive Officer & Director, Inogen, Inc.

MANAGEMENT DISCUSSION SECTION

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To the podium here for the next presentation. And welcome CEO Nabil Shabshab. Also in the audience here, we have CFO, Kristin Caltrider and VP of IR and Agnes Lee. Thanks a lot for being here and I really appreciate. I'll turn it over to you for presentation. Thanks.

Nabil Shabshab

President, Chief Executive Officer & Director, Inogen, Inc.

Thank you, [ph] Jason (00:00:20), and thank you for joining us today, so we can go through a brief presentation about Inogen. We encourage you to look at our website, to look at the forward-looking statements. We're not going to burn a lot of time on it. It's up on the website as a presentation. So who's Inogen? So I think for the people that don't know us very well, it's a global oxygen therapy medical device company. There are a few characteristics I'd like to draw out when you look at who we are. So definitely, we're the global leader in long-term oxygen therapy and POC modality specifically as a dynamic player in terms of changing the delivery model to a nondelivery model that's much more sustainable for the players in the industry.

We definitely have favorable demographic market trends like if you look at COPD, it's the third leading cause of death around the world and in the US specifically. The cost burden to the US healthcare system estimated by the CDC is about \$50 billion in 2020. So it's a disease state that needs to be managed a little bit differently and much more efficiently, providing a lot of runway for the company that bring the right innovation and the right go-to-market strategy there. In addition to being a MedTech company, as we go through this transformation, we are an HME that's accredited in all states in the United States. So we act both not only as the brand owners as well as the manufacturer, but as an HME that can put patients on service in addition to selling them directly for cash.

We definitely operate also through a network of partners around the world. We are in about 60 countries, give or take, and we go to market through partnerships with distributors or gas companies there. We've been going through a strategic transformation. I've joined Inogen about a year and a half ago. The transformation could simply be characterized by going from a strong HME with an excellent product to a MedTech company that has this HME capability and an excellent portfolio moving forward, in terms of innovation and not only catering only to COPD patients but beyond that.

We'll cover the attractive financial position. You'll see our strength in terms of our ability to fund growth, as well as the strength on the balance sheet itself. And the – I would urge you to look on the website to look at the roster of the leaders that we have in the company. As evidenced by the transformation we go through, we've got the best of the best that are basically going through that transformation.

So, just a quick snapshot. So the core business is long-term oxygen therapy aimed at COPD, basically cystic fibrosis and pulmonary fibrosis. The adjacencies are in dyspnea, as well as hypercapnia or patients in earlier stages of COPD. And moving forward, bronchiectasis and congestive heart failure are the adjacencies that are around.

What's unique for us is we have not only a B2B go-to-market strategy. We have a direct to consumer go-to-market strategy. We actually touch patients directly by selling them our devices for cash and/or putting them on service as a rental patient, and then we actually use our distributors as partners to cover the breadth of the market. We are basically operating in North America. That's about 70% of our revenue, but the rest of the revenue is outside and the key geographies around the world, leaving us room to actually expand and accelerate in very selective geographies.

I'm going to go very high level here. Five-year CAGR from 2016 to 2021 is 12%. You look at the revenue breakdown, it's a healthy distribution between cash, direct to consumer, rental and B2B, as well as international. We'll talk a little bit about where the focus areas are and where the growth is going to come from. If you look at the margin profile, in the 50s, for the overall, the business. This is an aspiration for us to actually start from there and improve it moving forward.

The strength, back to the balance sheet, we've got about \$210 million on the balance sheet. Especially in times like this, it's really appreciated for two reasons. One, as we have gone through a lot of turbulence, like every MedTech company, we'll have to finance our way through some of the premium pricing we paid on semiconductor. So, that came in very handy. As well as it allows us to invest for growth, which is the most important aspect of what the transformation is all about. And then, it leaves cash on the balance sheet for us to selectively look at M&A if and when we're ready.

So if we could characterize what the transformation is about and the strategy and like one – in one graphic or one depiction. There are – there's like – we think about it as runways, short-term runway, short to medium term, and then medium to long term. And the short-term runway is all about actually strengthening the core of the business and growing and eventually growing profitably. And it's basically taking the best assets we have, which are the POC portfolio that we have, a portable oxygen concentrator portfolio, adding to – with some value-added services and driving commercial excellence, both in the DTC channel, the direct-to-consumer channel, as well as on the prescriber side and continuing to partner with our B2B.

But there is plenty of runway, if you look at the penetration of portable oxygen concentrated therapy modality out of the total, according to CMS data, you'll realize it's only 21.9%. So, there's plenty of runway left for the conversion if you actually get the strategy and execution right, which we are well on our way to do that. The next layer of growth naturally will come from new product introductions. Any company that doesn't have a healthy innovation pipeline that would actually add not only in terms of increasing differentiation on the core portfolio, but also adding patient populations and/or indications would find it hard to actually accelerate growth beyond the core. But we are going to share with you a slide in terms of what illustratively pipeline looks like and why we are encouraged by the potential new product introduction growth lever.

Now, the third lever is naturally going to lend itself to both the first one and the second one, which is market development and advancing POC-based therapy. There's plenty of room for us to continue to do clinical work, which nobody else is doing; partner with key opinion leaders, which we have a network of; as well as a scientific advisory board to influence therapy guidelines and be able to make sure that the clinicians, when they prescribe, are very thoughtful about putting people on the right modality at the onset of care, and that's very important for us. So, we're putting effort and energy behind that so we can grow the market in totality, but also grow the POC-

based aspect of it, not only for Inogen but for any willing partner and participant in that. And then we leave the last layer, which is selectively M&A and organic growth is always at play. We're very careful what we look at, but we're looking at plenty of opportunities and eventually, we'll get there.

So, I'm going to go back to the first lever, which is driving POC-based oxygen therapy, and I'm going to summarize it with three things. But more importantly, I'm going to actually talk about the progress we've made in the last 18 months that this new team has been on the ground. So, the first one is the DTC channel. That's a unique differentiating channel for Inogen. It gives us access to these patients. It helps us to build brand equity, get direct feedback from them, be able to actually either put them on a cash sale and/or convert them into a rental patient if they can't afford the cash sale. But it's a very unique channel. Nevertheless, it requires continued effort and the progress we've been making in terms of driving not only productivity but efficiency. I'm going to simplify this by saying there's plenty of room for us to increase the sales discipline, sales management, and be much more data-driven, so we can actually shorten the sales cycles and increase the conversion rates in the direct-to-consumer channel, which is underway.

So, let me actually click through a few metrics. And the reason we picked these timelines, 18 months and 18 months, there's a lot of noise that happened because of COVID and other headwinds and tailwinds within the last three years. So, we picked two timelines that are October 2019 to March 2021, and then April 2021 to September 2022, depicting the previous performance and the performance under the new team.

Let me start from the bottom up. Despite the fact that we have 11% less reps, despite the fact that the tenured reps were 5% less, nevertheless, no pun intended, the DTC revenue grew 18%, the DTC revenue per rep grew 33%, and the average selling price went up 24.6%. And you might say, aha, that's why your revenue is growing, but the units also grew about 10%, which we believe is the underlying growth hypothesis or the thesis that we have, that continuing to focus on commercial excellence in this channel, which is fairly developed for Inogen is the path moving forward so we can do more with the same investments that we have and continue to drive growth.

So, the second lever is basically driving the prescriber channel growth. Let me just quickly characterize what the prescriber channel is. We've tried for seven years at Inogen before to go to the prescribers, be it pulmonologist or cardiologist and other GPs, to be able to advocate and get prescriptions from them, for the patients that they diagnose and they prescribe at the onset of care, so we can convert them into rental patients. It wasn't a major focus area. It wasn't funded very well. But since March of 2022, we actually made that channel a key priority for us for very important strategic reasons and basically put about roughly 60 people in place to be able to drive that penetration into the prescriber offices, as well as secure prescriptions from them. And I'm going to show you a couple of metrics.

The reason we're doing that is we believe that if you want to increase the penetration of POC-based therapy out of the total therapy, you can definitely partner with your distributors and your HMEs, but you have to actually grow the market and develop it yourself by going directly there. Some of the metrics that we are going to share today from Q2 this year to Q3 because we just put the sales force in place. If you look at the monthly rental productivity of tenured reps, it has gone up to 93%. The patient referrals from existing prescribers is up 16%, from new prescribers is up 21.4%. And we've been able to add two times the base prescribers that we had and new prescribers versus what we had before.

So last but not least, of course, is the B2B strategic partnership. So we've been engaged in transactional relationship. We're elevating those relationships to a more strategic partnership level. And we're focused on driving market development, total cost of ownership for these distributors and making sure that as we grow the market and we make the pie bigger, everybody can get their fair share of the slice and Inogen can get that, too.

So let me talk to the second lever, as we said. So first one, commercial execution, hopefully that we summarized clearly. The second one is basically growth through new product introductions. I'm not going to cover the first one. I think Inogen is known for the last 20 years to have the best-in-class portfolio and devices. So there's no need to dwell on that.

Let me talk about the future. And I've split these into three time horizons. 2023 to 2024, what's going to be new and different in terms of the portfolio itself. There's a couple of things. A new and improved device, a portable oxygen concentrator that is beyond the current six settings. Today, our best device is G5 with six settings. So, a new and improved device. A pulse oximetry interoperability, and the reason we need that is we need to actually be able to collect data of our device as well as of other devices that can inform the patient how to manage the disease state, but also inform the clinicians also how to manage the disease state. And then cellular connectivity. So, we're building a digital health cloud and the extra – the new indication would be dyspnea.

The second timeframe is 2024 to 2025. We intentionally term this by sort of like a whitewash term as Portfolio 3.0. The innovation there in the pipeline illustratively and these are all actual projects but they might give and take depending on development progress that we have. A POC with ambulatory ventilation assistance. There's nobody today that can help with ventilation as an assistance during ambulation, and we believe that's a key opportunity for Inogen to play in as we know oxygen therapy, we know respiratory distress, and we can actually add a ventilation assistance to our product.

The other things remain the same. Digital health will go from I can collect the data to I can support you in making the right decisions on what setting, what time, how much you use the device, as well as have an indication increased from dyspnea to hypercapnia and then patients in earlier stages of COPD.

If I look beyond that, 2025 to 2026, we are definitely focused on continuous and pulse flow. So today, we have a pulse device. We are focused on continuous oxygen sources with higher flow, definitely as part of that niche market where people need more liters per minute and they might need continuous. We're also focused on managing respiratory distress. There's a technology that we believe could help people from hyperventilating and getting into this doom loop of over-breathing basically, I'm simplifying. But then you go from a decision support, the value-added services into a closed loop versus I ask you to change your setting; if you opt in, I'll change your setting, and I'll inform you and then inform your clinician. And then, the indications are patients that are requiring continuous flow and the respiratory anxiety.

Okay. So, we're not immune to the headwinds. Everybody, I'm sure, in this conference is talking about some of the macroeconomic and inflationary headwinds. We're not different. They're not in our control, but we're doing something about part of them. So, B2B customer access to capital is a little bit constrained. Everybody is struggling now at the end of the year because of some of the development in respiratory care and in the sleep business, where people overuse capital for certain reasons that's publicly available. There's, of course, some competition. People are now trying to advantage themselves because of the remediation of the back orders, which we've done mostly without any attrition in order to come in in discount prices. We're not going to engage in a race to the bottom in that. And then, there's inflationary pressure in terms of the patient purchases and the direct to patient. And then we're also upgrading our sales force on the DTC side.

So, more importantly, what are we doing? There are two vectors for us. One is trying to counter at least some of the headwinds that we're facing. And the other one is staying the course in terms of the long-term strategic transformation that we're going through. So, on the try to mitigate some of the pressures, we're working very closely with our B2B partners to actually get to normal ordering patterns and manage some of the pressure they

have from a capital access perspective. We're driving the total cost of ownership value proposition as well as we are the best suited partner not only to have a technology road map and innovation, but differentiation, supply assurance, and we have the total best course of ownership versus looking only at acquisition price.

And then on the DTC side, we're experimenting and fine tuning a little bit in terms of are there things that we can do that can generate demand a little bit differently than before considering the inflationary environment that we're in. More critically, as we do that, which is short-term blocking and tackling, is making sure that we stay the course in terms of driving growth and POC penetration. We talked about the DTC productivity and efficiency. The prescriber success we've had was grown in Q3 25% versus the comparative period this year. That's a demonstration of the value of the channel itself, as well as what it could contribute to Inogen. So we want to continue to build on that growth and drive further penetration because that is a little bit more immune to any of the headwinds that we talk about today. Those patients from rental only pay a co-pay; [indiscernible] (00:16:23) strategic relationships and the clinical and market development; and then, accelerate growth and the core new product introductions and the value-added services from digital health and then, beyond the core, the indications.

So, why Inogen? Here's my summary slide on why. So there's plenty of opportunity for durable and sustainable growth runway. As evidenced by the low penetration of POC rates, which is 21.9%, according to CMS data, plenty of runway for the right players in the space. We have definitely the advantage with a best-in-class portfolio, but we're adding value-added services that can increase the barrier to entry. Not every competitor is going to invest in digital health services, data mining, data analytics and a feedback loop either into the prescriber or the EHR and EMR system, which will help us create differentiation.

Of course, new product introductions are essential to any growth story, so we have a runway in terms of the portfolio that I shared with you that can help us in the medium and the long term. We obviously are lucky to have managed our cash really well and our operations really well. So, we're blessed with a strong balance sheet that gives us options both in terms of working through some of the turbulence that remains in the market, funding the growth strategies that we have more importantly, but also leaving options on the table for inorganic opportunities, and then an opportunity to return to profitability in the medium to long term.

Thank you for joining us today. I hope this was helpful a little bit. We're happy to actually meet elsewhere because we're out of time here and take questions. And if you need to call us, let Agnes know, and we'll be happy to arrange for a meeting. Thank you so much.

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Thank you.

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