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Inogen, Inc. (INGN)

Q2 2022 Earnings Call

CORPORATE PARTICIPANTS

Agnes Lee

Senior Vice President-Investor Relations & Strategic Planning, Inogen, Inc.

Kristin A. Caltrider

Executive Vice President and Chief Financial Officer, Inogen, Inc.

Nabil Shabshab

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

OTHER PARTICIPANTS

Brett Fishbin

Analyst, KeyBanc Capital Markets, Inc.

Rohin K. Patel

Analyst, JPMorgan Securities LLC

Maggie Boeye

Analyst, William Blair & Co. LLC

Michael Matson

Analyst, Needham & Co. LLC

MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Inogen's Second Quarter 2022 Earnings Conference Call. At this time, all participants are in a listen-only mode. Following management's prepared remarks, we will hold a Q&A session. [Operator Instructions] As a reminder, this conference is being recorded today, August 4, 2022.

I would now like to turn the conference over to Agnes Lee, Senior Vice President of Investor Relations and Strategic Planning.

Agnes Lee

Senior Vice President-Investor Relations & Strategic Planning, Inogen, Inc.

Thank you for participating in today's call. Joining me are CEO, Nabil Shabshab; and CFO, Kristin Caltrider. Earlier today, Inogen released financial results for the second quarter of 2022. This earnings release is currently available in the Investor Relations section of the company's website, along with the supplemental financial package.

As a reminder, the information presented today will include forward-looking statements, including, without limitation statements about our growth prospects and strategy for 2022 and beyond. Expectations related to our financial results in the third quarter of 2022 and expectations related to a return to profitability; our expectations with respect to supply challenges and cost inflation related to semiconductor chip and other product parts used in our POCs. Our expectations on European regulatory clearances and approvals; future reimbursement rates, expectations regarding increasing productivity of our internal and external sales team; progress of our strategic initiatives, including innovation; hiring expectations; our expectations regarding the market for our products, on our business and supply and demand for our products in both short-term and long-term.

The forward-looking statements in this call are based on information currently available to us as of today's date, August 4, 2022. These forward-looking statements are only predictions and involve risks and uncertainties that are set forth in more detail in our most recent periodic report filed with the Securities and Exchange Commission.

Actual results may vary, and we disclaim any obligation to update these forward-looking statements, except may be required by law. We have posted historical financial statements and our investor presentation in the Investor Relations section of the company's website. Please refer to these files for more detailed information.

During the call, we will also present certain financial information on a non-GAAP basis. Management believes that non-GAAP financial measures taken in conjunction with US GAAP financial measures provide useful information to both management and investors by excluding certain noncash items and other expenses that are not indicative of Inogen's core operating results.

Management uses non-GAAP measures internally to understand, manage, and evaluate our business and make operating decisions. Reconciliation between US GAAP and non-GAAP results are presented in tables within our earnings release.

With that, I will turn the call over to Inogen's President and CEO, Nabil Shabshab. Nabil?

Nabil Shabshab

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

Thanks, Agnes. Good afternoon and thank you for joining our second quarter 2022 conference call. We have made tremendous progress in the second quarter, driving 29% sequential revenue growth compared to the first quarter of 2022. This accomplishment can be directly attributed to the team's efforts to manage and mitigate supply chain headwinds and macro challenges to meet customer demand.

From a supply perspective, the relentless focus and investments that we have made to secure semiconductor inventory from our regular channel as well as the open market, in addition to our POC design efforts have allowed us to manage most of the challenges so far. As a result, we are pleased to be able to provide revenue guidance for the third quarter. We are expecting third quarter revenue to be in the range of \$97 million to \$100 million, representing growth of 4% to 7% versus the same period in 2021. Kristin will be going into more detail regarding our outlook when she covers our financials later.

Despite the improved visibility, the supply situation continues to be fluid and we are still persistently engaging with our suppliers and working through challenges to improve coverage for the remainder of the year. While successfully managing our supply constraints this quarter, we have continued to execute on our transformation. I'm pleased with the pace of progress, the fundamental capabilities we have strengthened and how this is impacting our execution in the current year, but more importantly, allowing us to set up for scale and profitability in 2023 and beyond.

Our continued focus on improving talent and our [ph] envision (00:05:40) culture are important pillars of our transformation. This quarter, we added Agnes Lee as our SVP of Investor Relations and Strategic Planning. Agnes brings more than 25 years of experience in Investor Relations, Finance and Communications from a range of small-, mid- and large-cap, medical device, life sciences and diagnostics companies. We are continuing to selectively upgrade our team at various levels to drive relentless execution and add bench strength.

We have also made significant strides executing on our commercial productivity while driving sales performance specifically in our DTC and prescriber teams. Our efforts and focus to drive innovation are showing early promise

of setting us up for a strong pipeline in the medium term. I will talk in more detail about this progress, but first, I wanted to provide an update on the supply chain situation.

In the second quarter, we have been able to stay on top of our semiconductor supply situation. In many cases, we have actively engaged and partnered with our regular suppliers to manage commitments and delivery schedules. We have also been successful in securing supply from the open channel and have successfully completed the secondary design of the motherboards on our POCs to work around certain chip shortages.

Based on our latest assessment and despite various moving pieces, our outlook is cautiously optimistic. While we have not mitigated all the supply risks, we feel we are making adequate progress to secure most of the needed parts for the third quarter, the remainder of 2022 and early 2023. Opportunistic forward buying of semiconductor parts will remain part of our strategy to mitigate risks moving forward. I would like to stress that although we have been successfully managing an unstable supply situation for several quarters, any delays in securing supply or receiving materials would impact our ability to meet customer demand potentially into 2023.

Now turning to strategic initiatives. Although supply chain has demanded a large amount of our time and energy, we have maintained a focus on our strategic initiatives that are essential to support durable growth in the future. I would like to walk through some of our progress in that area.

One of the critical enablers of performance is commercial excellence, which we have been focused on to drive sales growth. We have been making steady progress to expand our sales footprint, specifically in the prescriber theme, while driving increased productivity across all of our commercial operations. We continue to actively make adjustments in our prescriber sales organization aimed at addressing the makeup and performance of the team. While we remain focused on optimizing the overall capabilities, we achieved 57 state sales positions out of our target of 60 despite the challenging hiring environment.

In the DTC channel, we continue to strengthen our sales capabilities and refine our organization with focus on adding new sales talent, further deployment of greatly improved training and onboarding, and the use of analytics and tools to support sales management and productivity. We are happy with the early and promising signs of elevated sales performance and productivity across the cash and prescriber themes.

Another critical part of our transformation is innovation and new product development. We are determined to build a stronger innovation pipeline to drive medium term growth and support of our long-term growth aspiration. We have amassed patient and prescriber insights through ethnographic and quantitative primary research that are being used as part of our ideation and down selection of the concepts. We also recently added a senior leader to the organization to drive innovation strategy and projects and have partnered with an outside innovation company with several months of successful joint efforts already underway. Additionally, we are now working closely with our recently appointed Scientific Advisory Board to seek input on clinical criteria that will augment our technical, commercial and regulatory considerations in our prioritization efforts. The elevated disciplines, capabilities and multifaceted external collaboration are starting to deliver higher quantity and quality projects with elevated predictability. We still have substantive work to be done over the medium term to create a solid product pipeline and I look forward to sharing more details in the future when we are ready.

As a medical technology company, we have also been building a clinical capability to support our go-to-market and innovation strategies. Our clinical efforts additionally focused on opportunities where we believe market development can help drive a higher level of adoption for POCs as part of the overall oxygen therapy. Over the last six months, we have had to direct the team's focus on meeting regulatory needs, but we recently added a

clinical leader who will focus on driving clinical discipline and product development engaging with key opinion leaders and spearheading our clinical trial work.

I would now like to move to an update on the European regulatory clearances and US reimbursement. As a reminder, current Inogen products are commercialized in the European Union under the Medical Device Directive certificates, and ours expired on May 18, 2022. The review of our MDR submission is progressing, albeit a bit slower than we expected, and we will provide an update when we have approval. In the interim, we filed derogation requests in Germany, France, Spain, Italy, Belgium, the Netherlands and a few other European countries. We have already received an approval to continue selling of POCs in France until the end of October 2022, as well as approval in the UK.

On the US reimbursement front, the COVID-19 public health emergency has been extended another 90 days, which will continue to allow a lower burden in terms of medical documentation and administrative steps when physicians prescribe home oxygen therapy for Medicare patients. As we look ahead, despite the near-term challenges, the underlying demand for our offerings is strong and we are committed to increasing the POC market penetration and improving patient access. Despite the improvement in supply chain, uncertainties remain, and we are committed to continue to manage that with the same focus and tenacity that we have displayed so far.

I am pleased to report that this quarter several factors led to the improving clarity in our outlook. First, we have seen continued demand for our offerings in our core business in DTC and rentals. Second, we are seeing good outcomes from our ongoing efforts to remediate B2B backlog of orders. And third, we have been successful in our efforts to reasonably manage supply chain challenges. As a result of these factors, we will be providing Q3 revenue guidance with the hope of returning to full year guidance as supply challenges abate.

Our commercial organization continues to improve as we implement training, deploy analytics to drive performance and strengthen our sales management disciplines to drive productivity. We have also laid the groundwork with good initial progress in terms of strengthening our innovation pipeline, and we are well positioned to continue progress with the clinical efforts moving forward. Over the last year, we have successfully strengthened our leadership team, who have demonstrated abilities to strategize, execute, drive efficiency and productivity and mitigate risks due to the challenging environment Inogen and other companies are operating in. I am particularly proud of the new fact-based and insights-driven discipline we have put in place and know that it is core to our efforts to drive successful commercial execution and results and accelerate our innovation efforts. We look forward to updating you on our progress as we stabilize our supply chain and refine our long-term strategy that articulates our short- and long-term market opportunities, and our runway for growth, profitability and value creation.

I will now turn the call over to Kristin. Kristin?

Kristin A. Caltrider

Executive Vice President and Chief Financial Officer, Inogen, Inc.

Thanks, Nabil, and good afternoon, everyone. Total revenue for the second quarter of 2022 was \$103.4 million, a substantial sequential increase of approximately 29% from the first quarter of 2022. This improvement was made possible by higher production volumes available for sale in the quarter. Q2 revenue increased 1.8% over the comparable period in 2021. The year-over-year increase was driven by higher sales to our international B2B channel, as we prioritized products for international shipments due to the imminent expiration of the European Union Medical Device Directive certificate. Additionally, we experienced a significant increase in sales to our domestic rental channel. This growth was partially offset by lower domestic business-to-business sales due to the prioritization of shipments to Europe through May.

For the second quarter, foreign exchange had a negative 180 basis points impact on total revenue and a negative 780 basis points impact on international revenue. On a constant currency basis, second quarter total revenue increased 3.6% over Q2 2021. Looking at revenue on a more detailed basis. International B2B sales increased 71.6% to \$37.4 million in second quarter of 2022, from \$21.8 million in the prior year, driven by the prioritized shipment of products in advance of the expiration of the EU MDD certificates, as discussed previously. Domestic direct-to-consumer sales decreased 0.7% to \$40.6 million in the second quarter of 2022, from \$40.9 million in the second quarter of 2021, primarily driven by lower volume due to lower sales representative head count. This is offset by an increase in average selling prices.

Domestic B2B revenue decreased 59.3% to \$11.2 million in the period compared to \$27.6 million in the prior year, but increased approximately 120% sequentially versus Q1 2022, as we began to fulfill the backlog orders in this channel. Rental revenue increased 25.1% to \$14.1 million in the second quarter of 2022, from \$11.3 million in the second quarter of 2021, primarily driven by more patients on service and higher Medicare reimbursement rates.

Now on to discuss our gross margin. Sales revenue gross margin was 43.3% in the second quarter of 2022, declining 510 basis points from the second quarter of 2021, driven by higher purchase price variances and warranty costs, partially offset by higher selling prices and improved channel mix. Rental revenue gross margins was 54.2% in the second quarter of 2022 versus 58.6% in the second quarter of 2021, a decline of 440 basis points. The decrease was primarily driven by increased service costs and depreciation, partially offset by higher Medicare reimbursement rates.

Moving on to operating expense. Total operating expense increased to \$49.1 million in the quarter, compared to \$38.7 million in the second quarter of 2021. This represented an increase across all categories. First, we have continued to invest in R&D with an increase in spend of \$1.9 million versus the second quarter of 2021. The majority of this increased spend was for product development and regulatory activity.

For sales and marketing, the \$1.1 million increase in spending was primarily related to bolstering our prescriber business, with increased consulting expenses and subscription fees associated with analytical tools intended to increase sales rep productivity. And for general and administrative expenses, the \$7.5 million increase was primarily due to a \$6 million decrease in the benefit from the change in fair value of the New Aera earnout liability, and a \$1 million increase in personnel-related expenses aimed at rebuilding core capabilities at the company.

In the second quarter of 2022, we reported a net loss of \$3.4 million and loss per diluted share of \$0.15. On an adjusted basis, we reported a net loss of \$366,000, and an adjusted loss per diluted share of \$0.02. Adjusted EBITDA is positive, \$3.2 million.

Moving on to our balance sheet. We continue to make investments this quarter in our inventory incurring significant additional cost for the semiconductor chips purchased on the open market, but not yet sold in finished goods. This contributed to increases in prepaid expenses and other current assets and inventory. As of June 30, 2022, these balances were \$25.5 million and \$33.5 million, respectively. Finally, we ended the second quarter of 2022 with cash and cash equivalents of \$223.6 million with no debt outstanding. This was in line with our cash position in the first quarter of 2022.

I will now turn to our financial outlook. As Nabil mentioned earlier, we are providing revenue guidance for the third quarter. We are now expecting total company revenue for Q3, 2022 in the range of \$97 million to \$100 million, resulting in growth of 4% to 7% on a year-over-year basis. This range continues to reflect uncertainty associated

with the phasing of domestic B2B open orders and timing for these customers to return to normal ordering patterns.

Given the ongoing uncertainty related to supply chain disruptions and the COVID-19 pandemic, we are not providing detailed financial guidance for the full year 2022. To further help provide context for modeling, we are still actively managing our supply chain constraints, including forward buying of semiconductor chips. This has led to higher PPV, which is expected to have an impact on our Q3, 2022 gross profit and a lessening impact for the remainder of the year and into early 2023. We do not have a line of sight to when the supply chain-constrained environment will subside, but we believe this margin compression from higher PPV is temporary, while the offsetting impact of increases to our selling prices taking over the past year will remain. We also expect prepaids in inventory levels to decline over the same period.

From an operating expense perspective, we expect to continue to see increased spend in the business through the end of 2022, in line with our original long range plans aimed at strengthening capabilities. These investments will set us up for long-term revenue growth and a return to profitability [indiscernible] (00:22:19).

With that, we will be happy to take your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. And at this time, we will be conducting a question-and-answer session. [Operator Instructions] Our first question comes from the line of Matthew Mishan with KeyBanc. Please proceed with your question.

Brett Fishbin

Analyst, KeyBanc Capital Markets, Inc.

Q

Hey, guys. This is Brett Fishbin on today for Matt. Thanks for taking the questions. Just wanted to follow up on some of the comments around supply chain. I think you guys were pretty clear around what you're seeing in the market and level of current visibility, but just thinking about some of the forward buying around chips, can you frame how the impact of that higher cost inventory could flow through to gross margins over the next few quarters and potentially into 2023?

Nabil Shabshab

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

A

Hey, Brett. Thanks for the question. It's Nabil. I'm going to take that one. So maybe let me start by saying that supply chain is – we're cautiously optimistic, as we said. But there's still a need for us to get ahead of some of the issues what we're seeing in the marketplace and that does require us for -- to make sure that we are opportunistically looking at the gaps that we have and buying forward. From a pricing perspective, we're seeing prices remain almost where they are in terms of the open market channel. So the PPV is expected to be the same at least for the coming quarter at least, and then early into 2023.

Brett Fishbin

Analyst, KeyBanc Capital Markets, Inc.

Q

All right. And then just -- I wanted to also just touch on the international. Understanding there was bolus of sales coming in ahead of the EU MDR deadline. Was -- was this level in line with your expectations, maybe this time last quarter? Or was that -- or was it higher? And then just looking ahead, can you -- I know there wasn't a specific

timing update, but can you just touch on what needs to happen between now and then eventually getting the approval for that submission?

Nabil Shabshab

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

A

So, Brett, just wanted to make sure. The question is a two part question. The first part is on the level of sales that we achieved in Q2 and doesn't sustain in Q3, I just want to make sure I'm answering the right question?

Brett Fishbin

Analyst, KeyBanc Capital Markets, Inc.

Q

Yeah.

Nabil Shabshab

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

A

Yeah. So as we had indicated before, we actually shipped in Q2 product to meet the demand that we had in place but ahead of the expiration of the MDD certificate that we had. We do not expect the same volume today to actually recur in Q3 because we met part of that demand with the shipments that we sent in in Q2. Your second question was more around what does need to happen between now and then to secure the approval on the MDR finding? It was hard to hear you.

Brett Fishbin

Analyst, KeyBanc Capital Markets, Inc.

Q

Yeah, exactly. You got it.

Nabil Shabshab

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

A

Okay. So like we said in our prepared remarks, our filing is going through a review, is progressing a little bit slower than we expected, but it is progressing. We've received the first set of questions. We've actually are preparing to respond to them. So we will update you once we get closer and have an approval. But until then, there is nothing that has changed in our expectation about the timing.

Brett Fishbin

Analyst, KeyBanc Capital Markets, Inc.

Q

All right. Thanks for that color. And then last question from me. There's definitely seems like there is a backlog and demand trends are healthy. Can you just touch on what you're seeing around consumer demand trends in the US? And then whether you think a broader pullback in consumer spending could impact Inogen's trajectory, all things equal, around the supply dynamics?

Nabil Shabshab

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

A

Yeah, Brett. It's an excellent question. So let me maybe start with the general context just a little bit. In medical devices we -- and in my discussions with other CEOs, we have not seen a lot of pullback in terms of spending on healthcare, specifically as it relates to the [ph] health space (00:26:32) that are difficult to manage and the willingness of patients to spend out of pocket. And your question is specifically around the cash channel and inflation impact as well as the increase in cost of living.

So then internally, from our signals and what we're seeing, we have not seen any softening in the demand. And just by way of reminding you, we actually did some price elasticity work not too long ago to make sure that we felt comfortable with taking the price increase. So far, maybe as a summary, we have not seen any impact in terms of the demand and we're confident that this price increase that we took has worked and will stick.

Brett Fishbin

Analyst, KeyBanc Capital Markets, Inc.

Q

All right. Thank you for taking the questions.

Nabil Shabshab

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

A

Thank you, Brett.

Operator: Our next question comes from the line of Margaret Kaczor with William Blair. Please proceed with your question.

Maggie Boeye

Analyst, William Blair & Co. LLC

Q

Hi, guys. This is Maggie Boeye on for Margaret today. I wanted to kind of expand on that EU MDR submission a little bit. So I think originally, the expectations were for you to have approval within the third quarter. So given the fact that it's all going slower than expected, what can we expect to assume within your guide for the international market? Thanks.

Nabil Shabshab

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

A

Hey, Maggie, it's Nabil. I'm going to take that one. I think we had indicated before, I'm almost sure that we indicated that the approval was slated for Q4, not for Q3, based on the timeline that we had. As I mentioned when I answered the other question now, we're still expecting this to be in line with the same timing almost. As we get more questions and respond to them, we'll have a little bit more definitive sense of is this timeline going to be met or not? But at this point in time, there is no visibility to the timeline changing for a Q4 approval.

Maggie Boeye

Analyst, William Blair & Co. LLC

Q

Okay. Got it. And then just for my second question, the past two quarters, we've seen a little bit slower growth in terms of rental, new patient ads. Can you talk about [ph] what's your – obviously, (00:28:36) can appreciate supply chain is impacting that. But can you talk about just with your growth in your prescriber business, that prescriber sales force business, what you're kind of expecting for the rental channel?

Nabil Shabshab

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

A

So the rental channel, as you can see from the number, continues to grow at a healthy pace. I think the focus that we've had, again, going back a little bit to the strategic aspect of it, we're building a prescriber sales force. We said we're at 57 in the prepared remarks. As of this call, we're around 60 approximately. So the focus continues to be there in terms of driving prescriptions into rental. Most of these patients go into rental, driving prescriptions at the onset of care and that prescriber business and the team because then we can maximize the billable months that we have ahead of us. So as you expect, as you put these teams into the field, we actually put the team into

the field between February and March. We continue to actually optimize the performance of that team and their deployment. But we're very positive in terms of the progress we're making and what we've seen so far as well as the potential from a rental perspective, Maggie.

Maggie Boeye

Analyst, William Blair & Co. LLC

Great. Thanks so much.

Q

Nabil Shabshab

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

Thank you.

A

Operator: Our next question comes from the line of Robbie Marcus with JPMorgan. Please proceed with your question.

Rohin K. Patel

Analyst, JPMorgan Securities LLC

Hey, this is actually Rohin on the line for Robbie. I guess, I was just firstly wanting -- I was wondering if you could comment more about the US Attorney's civil investigative demand that you had received for or that you just kind of announced. And that was just in conjunction with the False Claim Act. And could you just give more color whatever you're able to on potential outcomes from this, specifically from a business perspective as well as the general validity of the claims?

Q

Nabil Shabshab

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

This is something that is ongoing. We don't make comments on it while it's going through now. So we're not going to be able to make comments on that.

A

Rohin K. Patel

Analyst, JPMorgan Securities LLC

Okay. Fair enough. And the second question is, would you be able to talk more about the variance between customer order patterns and supply headwinds just with regards to your third quarter guidance? So which one is creating more of an uncertainty for you at this point and preventing you from taking that full step for -- or taking the step forward for fully full year guidance? It seems like from your commentary that supply is getting a little bit better at least some more line of sight. So what is also just your outlook for customer ordering patterns as well?

Q

Nabil Shabshab

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

So I'll answer the demand question part first. We continue to see very healthy demand in all the channels. As I answered the previous question around the fact that we continue to see a good trend on the cash sales side. The rental side continues to grow and we're making progress there. And the B2B side, which was more of a supply issue, not a demand issue, is getting remediated. And I just want to clarify a little bit of the demand, not the supply issue -- supply, not the demand issue. So we actually curtailed some of the supply to the B2B channel because we are trying to manage the short supply overall and making sure that we hit our commitments from a revenue perspective. But despite that, we have not seen a lot of movement in terms of cancellation of backlogged orders. They remain in place and we are working very diligently on remediating them. So in general, if I had to

A

characterize it, this is more of a supply issue than a demand issue overall. We're not seeing any softening in demand.

Rohin K. Patel

Analyst, JPMorgan Securities LLC

Q

Got it. Thank you.

Operator: And our next question comes from the line of Mike Matson with Needham & Company. Please proceed with your question.

Michael Matson

Analyst, Needham & Co. LLC

Q

Yeah. Thanks. So, the commentary around the price increases that you've implemented about that that's sticking. I mean, I guess, given the different channels, you've got the consumer side and then you've got the kind of B2B side, but maybe you can talk about each those. But what gives you confidence that those will, in fact, stick? Because it seems like that historically, at least the B2B side has been pretty cutthroat with regard to pricing. And if some of your competitors end up having a lot of these things on the shelves at some point, it seems like they might get a little more willing to wheel and deal on price. But I don't know, give me – I just wanted to see what your thoughts were on that?

Nabil Shabshab

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

A

Hey, Mike, Nabil, thanks for the question. So let me maybe make a comment on where prices historically have been. Despite the price increase that we took in B2B, we are still below the prices [ph] at 2017 (00:33:19). And since then, reimbursement has gone up sequentially despite the small amounts year-on-year. So we're fairly in a good place in terms of where the acceptance of our price increase was. Also, as a reminder, we did not take price increases opportunistically. We did it because of the increase in costs that we have, and we have to make sure that we continue to cover the bases there. So there has not been any adverse reaction. Of course, like all price increases, you get a little bit of resistance in the beginning and you manage through it. And when people understand the reasons behind it, it sort of settles. And we had said, when we took the price increase, we expected between 70% and 80% of it to actually stick, which has materialized.

Michael Matson

Analyst, Needham & Co. LLC

Q

Okay. Got it. And then on the -- I mean, on the consumer side, I mean, I know the company used to sort of do these pricing tests and try to set the price to sort of maximize the, I think, operating profit dollars or something like that. So, I understand right now your supply constraints, so it wouldn't make sense to do that type of approach. But if you were to revert back to that, what could that mean you might have to lower the prices there and that kind of maximize the operating profit?

Nabil Shabshab

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

A

Yeah. So Mike, it's actually a very good question. I'm just going to go a little bit backward and say I think some of the discounts and the promotions that we were accustomed to at Inogen were a result of a little bit weaker performance and execution from a productivity perspective. As you know, we're going through a major upgrade of our sales disciplines and capabilities, as well as equipping our sales teams with the right analytics. And we have a

sales management team that is basically very close to the teams themselves and how they manage these opportunities. We do not see ourselves in the foreseeable future going back to heavy discounting or promotional efforts. And despite that, since we stopped it actually for the last couple of quarters, we have not seen an adverse impact on demand honestly.

Michael Matson

Analyst, Needham & Co. LLC

Q

Okay, got it. And then, just the physician sales force, I think you said you were up to 60 people there. Are there any kind of metrics you could share with us about how that sales force is doing and kind of how the – this data-driven strategy is helping drive growth?

Nabil Shabshab

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

A

Yes, that's -- of course, we can make a comment. I think there's a -- I'm going to split the answer into a two part answer, one around the new prescriber team that's in place, and then one around the [ph] DTP (00:36:02) organization. So, with the prescriber team, as I mentioned earlier, we put the team in the field between February and March. We've seen actually very good early signs in terms of productivity, not only for the people that we're onboarding and have less tenure, but also for the people that were in place based on some of the targeting that we're doing with the highest prescribers in the field, where should we go? What level of frequency we should have on them?

And we're not going to comment on the actual numbers yet. We'd like to get a little bit of a trend under our belt, so we can start having conversations around those productivity measures. But for the time being, suffice it to say, we've seen very encouraging signs of progress in terms of the coverage we have, which we did not have before. As we commented on earlier calls, we cover roughly around now 65% of where the COPD patients are treated and prescribed, and with the right focus.

And then on the [ph] DTP (00:36:58) side, we continue to deploy segment-based selling as well as some of the disciplines around improving the quality of the leads and how we're actually managing through that. And despite the fact that we continue to refine the performance of the overall team, we're seeing also encouraging progress in terms of the productivity, be it in the sales cycle time that is reducing a little bit, as well as the [indiscernible] (00:37:22) close rates.

Michael Matson

Analyst, Needham & Co. LLC

Q

Okay. Got it. Thank you.

Operator: And we have reached the end of the question-and-answer session. I'll now turn the call back over to the Nabil Shabshab for closing remarks.

Nabil Shabshab

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

Thank you. I'm pleased with the incredible progress that we have made to manage and mitigate supply and macro headwinds while continuing to transform our business through steady incremental improvements to drive commercial productivity, develop an innovation pipeline, and clinical evidence. Although there is still much to be

done, we are seeing continued underlying customer demand and building a solid foundation for long-term sustainable growth and profitability.

As I conclude, I would like to thank our investors for your support and your interest in Inogen and thank the management team for their continued dedication and hard work that has allowed us to continue to serve patients with oxygen therapy needs all around the world. Thank you.

Operator: And this concludes today's conference, and you may disconnect your lines at this time. Thank you for your participation.

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