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Inogen, Inc. (INGN)

Q4 2023 Earnings Call

CORPORATE PARTICIPANTS

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings, and welcome to the Inogen 2023 Fourth Quarter Financial Results Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host Marissa Bych from Gilmartin Group. Thank you. You may begin.

Marissa E. Bych
Principal, Gilmartin Group LLC

Great. Thank you all for participating in today's call. Joining me are President and CEO, Kevin Smith, and Interim CFO, Mike Sergesketter. Earlier today, Inogen released financial results for the fourth quarter of 2023 and full year 2023. This earnings release is 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 2024 and beyond; our expectations related to our financial results for 2024; progress of our strategic initiatives, including innovation, our expectations regarding the market for our products, our business, supply and demand for our products in both the short and long-term.

The forward-looking statements in this call are based on information currently available to us as of today's date, February 27, 2024. These forward-looking statements are only predictions and involve risks and uncertainties that are set forth in more detail in our most recent periodic reports filed with the Securities and Exchange Commission. Actual results may vary, and we disclaim any obligation to update these forward-looking statements except as 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 for both management and investors by excluding certain non-cash 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. Reconciliations between US GAAP and non-GAAP results are presented in tables within our earnings release.

And with that, I will turn the call over to Inogen's President and CEO, Kevin Smith.

Kevin R. Smith

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

Good afternoon, and thank you for joining our fourth quarter 2023 conference call. During today's call, I will provide insights into my experiences during my first month as CEO, outline our strategic priorities going forward, and share a few highlights from the recent quarter.

I'm pleased to be leading my first earnings call here at Inogen. We have a great team and a great product portfolio.

During my first month as CEO, I have observed and reflected on the strengths and challenges within our business, seeking substantial internal and external feedback regarding our portfolio, strategy, sales structure, field organization and performance. I have spent much of my time visiting our global teams, investors and management to understand the company from its roots.

From my conversations with our leaders, I have immense confidence in the opportunity ahead of the company and our capability to make improvements across the business.

As I strategize our path forward, I'm pleased to welcome two additional new leaders to our team. We are thrilled to have appointed Greg Ramade as Chief Commercial Officer in January. Greg's experience will help improve Inogen's products, commercial strategy and customer experience.

We also look forward to bringing on Michael Bourque as our new CFO. His appointment we announced in late January. Michael will be joining the company effective next week, March 4, strengthening our finance organization and stewarding our accounting and FP&A teams. I'm confident that both of their additions are a step towards achieving Inogen's full potential.

I would like to share insights into Inogen's strategic priorities going forward, a top priority is positioning the business for revenue growth. An important piece of this process is the pursuit of regulatory clearance for Physio-Assist introduction to the US market.

Physio-Assist represents an exciting opportunity to expand our portfolio, increasing our ability to impact the lives of existing and new patients. We remain optimistic about our ability to achieve clearance, and we'll be providing updates as they're available. We will also be pursuing a return to sustainable profitability in the coming years.

To this end, we are evaluating optimization of our production and cost structures with the intent to improve the cost of goods sold.

Advancing our innovation pipeline with transformative technologies is also a key priority. We are advancing developments to make our products more accessible, mobile and effective. This includes innovation within our digital health portfolio.

Inogen devices are known for their superior patient compliance, monitoring and diagnostic capabilities, and we know that continued investment in our platforms to improve their ease of use and cost effectiveness can take us even further with our business-to-business partners, further establishing patient and provider preference and loyalty.

In tandem with all of these efforts, Inogen will continue to bring best-in-class POCs to the market, evaluate our sales strategies and strengthen our relationships with distributors and stakeholders in new and existing markets. We remain dedicated to delivering the highest quality, most dependable and most advanced respiratory therapies to patients around the globe.

Now, I would like to highlight our accomplishments during the fourth quarter and full year 2023. We achieved $76 million in total fourth quarter revenue and $316 million in fiscal year 2023 revenue.

Our recent sales were in part driven by the full launch of Rove 6 in Europe, which is progressing along well with our expectations.

We have followed our 2023 achievements with several areas of progress in early 2024. For example, we saw a compelling conclusion supporting the adoption of POCs through a recently completed real world evidence study. The study analyzed the effectiveness, burden and cost of illness of over 380,000 long-term oxygen therapy patients. Baseline mobility was strongly correlated to lower risk of mortality over a 72-month period in mobile patients using POCs with higher duration of autonomy at nine-months longer median overall survival, lower risk of hospitalizations and ER visits, and consequently lower healthcare resource utilization cost in patients using POCs for shorter duration of time. This further reinforces that patient mobility is key to their health and well-being and using the devices that are compatible with it and do not restrict it have clear benefits.

At Inogen, we take pride in the mobility our devices offer patients. We are always striving to find ways to improve mobility through battery life, device size and weight, to improve patient outcomes.

In early February, we rolled out updates for our connected app and service portals to provide better patient monitoring and user experiences for our customers and business-to-business partners. Changes included the ability to connect to wearable diagnostic devices, the ability to track patient breaths per minute, and error and maintenance notifications linked to specific devices. These changes are part of our broader effort to make sure Inogen devices are not only dependable but also practical for all users.

In addition, we have initiated a shift within our rental channel through which we run our POCs via prescriber referrals. As part of a continued effort to improve our rental process, expand the rental channel, and increase our forecasting and predictability, we are moving away from one of our external sales partnerships and bringing support for prescriber rentals in-house. I believe this is an important step ensuring we are able to assist as many patients as possible [ph] in shifts (00:09:25) and look for opportunities to streamline our cost structure.

Before I turn the call over to Mike, I'd like to address the news of a recent competitor exiting the market. Due to this development, we are seeing some volatility in the domestic business-to-business channel, but we also see the potential opportunity to capitalize on a market leadership, differentiated product offering and brand recognition. We expect that there may be a void in the market and if so we will be ready to step in and fill it.

I'll now turn the call over to Mike for a more detailed review of our financial results. Mike?

Michael K. Sergesketter
Interim Chief Financial Officer, Inogen, Inc.

Thank you, Kevin, and good afternoon, everyone. Unless otherwise noted, all financial comparisons are to the prior year comparable period.

Total revenue for the fourth quarter of 2023 was $75.9 million, a decrease of 13.8% versus the prior year period. The decline was primarily driven by a decrease in domestic business-to-business sales and direct-to-consumer sales, partially offset by higher rental revenue.

For the fourth quarter, foreign exchange had a negative 50 basis point impact on total revenues and a negative 140 basis point impact on international revenues.

Looking at fourth quarter revenue on a more detailed basis, direct-to-consumer sales decreased 21.6% to $19.8 million in the fourth quarter of 2023, from $25.3 million in the prior year period, driven primarily by fewer representatives partially offset by higher rep productivity.

Domestic business-to-business revenue decreased 33.6% to $18.1 million in the fourth quarter of 2023, compared with $27.2 million in the comparable period driven by competitive pricing pressure, increased cost of capital and HME expense management.

International business-to-business revenue increased 4% to $21.5 million in the fourth quarter of 2023, compared to $20.7 million in the prior year period, primarily driven by the addition of Physio-Assist Simeox sales revenue, partially offset by competitive pricing pressure and an increasing cost of capital.

Rental revenue increased 10.6% to $16.5 million in the fourth quarter of 2023, from $14.9 million in the prior year period. Growth was driven primarily by an increase in the number of patients on service.

Now on to our gross margins. Total gross margin was 37.1% in the fourth quarter, increasing 360 basis points from the prior year period, primarily driven by lower premiums paid for components, warranty costs and labor and overhead costs, partially offset by higher inventory related losses.

Sales revenue gross margin was 32.8%, an increase of 350 basis points, driven primarily by lower component and labor costs.

Rental revenue gross margin was 52.7%, a decline of 120 basis points, primarily due to decreased reimbursement rates relating to insurance coverage mix as well as higher servicing costs. We expect a modestly higher gross margin in the first quarter of 2024 relative to the fourth quarter of 2023, driven by labor efficiency and lower impact from premium priced components.

Moving on to operating expense. In the fourth quarter, total operating expense decreased to $57.1 million, compared to $88 million in the prior period, representing a decrease of 35%. The decrease was primarily due to the loss on disposal of an intangible asset of $52.2 million in the prior year period, partially offset by the change in fair value of earnout liabilities and certain one-time costs related to the CEO transition and bad debt expense.

In the fourth quarter of 2023, we reported a GAAP net loss of $26.6 million and a loss per diluted share of $1.14. On an adjusted basis, we reported a net loss of $19.4 million and an adjusted loss per diluted share of $0.83. Adjusted EBITDA was a loss of $17.3 million.

Moving on to our balance sheet, as of December 31, 2023, we had cash, cash equivalents and marketable securities of $128.5 million with no debt outstanding.

Now to touch on full year performance. Total revenue for the full year of 2023 was $315.7 million, a decrease of 16.3% versus the prior year period. The decrease was driven by declines in direct-to-consumer sales, as well as domestic and international business-to-business sales, partially offset by higher rental revenue.

For the full year, foreign exchange had a negative 10 basis point impact on total revenue and a negative 40 basis point impact on international revenue.

Total operating expense was $236.1 million, compared to $238.8 million for the full year 2022, representing a decrease of 1.1%. Excluding the one-time non-cash impairment charge of $32.9 million in 2023 and the loss on disposal of intangible asset of $52.2 million in 2022, operating expense increased 8.9%, primarily driven by the change in the fair value of the earnout liabilities.

GAAP net loss was $102.4 million, compared to a GAAP net loss of $83.8 million for the full year 2022. Adjusted net loss was $48.3 million compared to adjusted net loss of $26.2 million for full year 2022.

Adjusted EBITDA was a negative $37.8 million, compared to a negative $13.5 million for the full year 2022.

Before I turn the line back to Kevin, I would like to share our revenue expectations for the first quarter. We expect first quarter 2024 revenue of $73 million to $74 million, reflecting growth of 1% to 3% compared to the first quarter of 2023.

With that, I will pass the call back to Kevin for closing remarks.

Kevin R. Smith

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

The start of 2024 opens a new chapter for Inogen. I remain optimistic for the future and I'm excited to welcome the new additions to our management team. Our products are trusted and reliable. Our innovation pipeline is robust and we have a particularly exciting opportunity to increase our ability to impact patients' lives with the recent addition of Physio-Assist to our portfolio. While there's much work to be done, our team is equipped to handle the challenges ahead.

Before turning it over for questions, I would like to take a moment and thank Mike for stepping in the Interim CFO role for the past six-months. His presence has been an immense benefit to myself and the company during this time.

With that, I will open it up for questions. Operator?

QUESTION AND ANSWER SECTION

Operator: Thank you. And ladies and gentlemen, at this time, we'll conduct our question-and-answer session. [Operator Instructions] Our first question comes from Robbie Marcus with JPMorgan. Please state your question.

Allen Gong
Analyst, JPMorgan Securities LLC

Q

Hi. This is Allen on for Robbie. Just my first question. I think when we look at your performance in the quarter, DTC kind of stood out to us again. A pretty significant sequential step down. And then when we think about the guidance, it seems as though you're expecting that to stay relatively weak. So, what are your plans for really stabilizing the business and what gives you confidence that you can execute on that over the coming quarters?

Kevin R. Smith
President, Chief Executive Officer & Director, Inogen, Inc.

A

Sure. This is Kevin. So when we look at our opportunities here over the coming quarters to stabilize and grow the business, we look at three areas we're really focused on.

One, is reducing the friction that's within the sales channels. We see opportunities there to continue to improve, that are opportunities that allow us to grow the business. We also see some near-term opportunities within our B2B channel, reducing COGS and controlling spend is another key focus for us going forward to improve our pathway to profitability.

And also approval of the Physio-Assist and expansion of our digital health portfolio. But I've seen more positives than negatives. We have a good team in place, an existing product that is top of the line. But we do see a lot of room for improvement within our sales strategy.

We have a new Chief Commercial Officer who we just appointed, started last month. We're working on it, but we want to ensure that we're maximizing the number of patients that we can reach each month. And there's a number of aspects of the business where we're not prioritizing certain types of sales because of our incentive structure, and we want to fix that. That incorporates both the DTC business that looks at the rental business as a whole as well as our cash sales.

Allen Gong
Analyst, JPMorgan Securities LLC

Q

Got it. And then just thinking about your capital position, you just mentioned how kind of reining in cost is a key part of the strategy, but you ended the quarter at a little over $128 million. How should we think about cash burn, whether or not you're confident that you can kind of steady the ship before you might need to raise more capital? Thank you.

Kevin R. Smith
President, Chief Executive Officer & Director, Inogen, Inc.

A

Yeah, sure. So, at the end of the year, we had over $125 million in cash and equivalents with no debt outstanding. We focused our investments on innovation within our pipeline, sales organization and manufacturing capabilities, we're going to continue to monitor and manage our expense and our cash burn. We do believe that we have a strong balance sheet and capital position to fund our upcoming initiatives and we don't anticipate going out for a raise. Anything to add there Mike that I missed.

Michael K. Sergesketter
Interim Chief Financial Officer, Inogen, Inc.

A

No, I think you covered it well.

Operator: Thank you. And our next question comes from Margaret Andrew with William Blair. Please state your question.

Margaret Kaczor Andrew
Analyst, William Blair & Co. LLC

Q

Hey, good afternoon, guys. Thanks for taking the question. I maybe wanted to go back to your commentary on some recent volatility in the market associated with a competitor leaving. I guess what does that mean? Is that related to pricing? Is that related to demand? Were there things kind of intra-quarter and I guess I'm curious if you can also give us an estimate of what their market share was in the last year?

Kevin R. Smith
President, Chief Executive Officer & Director, Inogen, Inc.

A

Yeah. So, yeah, thank you, Margaret. And with the exits from the market both on the SOC and the POC business, as I mentioned, we do see that there is a shift in dynamics there. We are closely monitoring that. We believe that there is going to be opportunities for us and we're putting ourselves in position to be able to take advantage as they present themselves. But it's not a light switch. This isn't a windfall. This is something that is going to present itself over time. We're focused on those opportunities.

We see them coming as really opportunities within our various business channels there, but we would anticipate more near-term opportunities within the B2B channel. But it's less on an ASP aspect as well as market availability, demand for POCs, where there may be a potential void. But I can't really comment on their market share versus our market share. We believe that we have a leadership position in the market and that is also giving us an advantage to be able to step in and help fill that void, Margaret.

Margaret Kaczor Andrew
Analyst, William Blair & Co. LLC

Q

Okay. And I'll maybe tie these two questions together. But can you at least say if they were maybe the number two player in the marketplace? I'm just trying to get a sense of just roughly how big they might have been. And then I guess the real question is around first quarter sales guidance, maybe a little bit lower than we were expecting. And other than 2023, I'm not sure that I've ever seen a down sequential Q1 for Inogen in my time covering the company. So, is that related to a certain business segment or can you give us a better breakdown by business segment? Thanks.

Kevin R. Smith
President, Chief Executive Officer & Director, Inogen, Inc.

A

Yeah. So, in regards to the market share and the position, there's been certainly some shifts in that. And I don't believe I'm in the right position to be able to comment on exactly who's number two in the market here right now. If we get more clarity down the road and I have more comfort being able to address, certainly I will.

And on the quarter-on-quarter, we see opportunities as I mentioned there ahead of us. And as we look at giving further guidance as we go out, I think we'll be able to give you some additional clarity. But it's not necessarily tied to any one of the segments. We do also see upside within this that we're working to position ourselves to be able to accelerate the growth as we go forward.

Margaret Kaczor Andrew
Analyst, William Blair & Co. LLC

Q

All right. So, I'm sorry, in the first quarter, you would just assume every business segment is down sequentially, even with the way that you guys had presented the guidance on a total company basis, is that correct?

Kevin R. Smith
President, Chief Executive Officer & Director, Inogen, Inc.

A

Sequentially, so you mean Q4 versus Q1?

Margaret Kaczor Andrew
Analyst, William Blair & Co. LLC

Q

Correct.

Michael K. Sergesketter
Interim Chief Financial Officer, Inogen, Inc.

A

If you look at Q4, we had growth in our international market, international B2B, we were down in our domestic B2B. And I think that would be the way I would think about the trends I think going forward for the near-term.

Margaret Kaczor Andrew
Analyst, William Blair & Co. LLC

Q

Okay. Thanks, guys.

Operator: Thank you. [Operator Instructions] Our next question comes from Mike Matson with Needham & Company. Please state your question.

Mike Matson
Analyst, Needham & Co. LLC

Q

Yeah, thanks for taking my questions. So, I guess, I know, Kevin you've only been there for a few months. But the prior management team had kind of had the strategy where they were to some degree deemphasizing the DTC channel and focusing more on kind of the rental side of things and they weren't giving up on DTC, but they were scaling back the sales force somewhat and trying to just help drive more productivity through the smaller number of reps. So, is that consistent with the way you're going to kind of run the business and then there's kind of four channels here. They all have kind of different margin structures and different, I guess, call points. So, maybe you could just tell us where you plan to focus your investment between those four, if you know at this point?

Kevin R. Smith
President, Chief Executive Officer & Director, Inogen, Inc.

A

Yeah. Thank you for the question there. And Mike, when we look at the different channels, we're looking at synergies that we have within them. And when I mentioned some of the friction that we've seen before, we have patients that are reaching out to us that want to have an Inogen POC. We have referrals that are coming in from the prescriber channels [ph] same thing (00:26:40) patients that want to have an Inogen POC.

And there is crossover in there between patients that have insurance coverage, appropriate coverage with a number of months left that they want a POC versus those that want or need to for certain dynamics have a cash sale. Hence, we're in the process of having these distinct channels, there's friction where we're handing patients off from one channel to the next channel. And so, we see opportunities to be able to minimize that friction, to be able to maximize the number of patients on an Inogen POC regardless of what that patient's preference is, insurance status and so forth.

If it's a cash sale, we get them a cash sale with the minimum touches. If it's insurance coverage, get them an Inogen POC with minimum touches. So, it's perhaps not directly answering the question there, but we do see opportunities within the rental space as well as the DTC cash sales. But there is a lot of crossover between those. So, as we're approaching this with our new Chief Commercial Officer and looking at the best way to maximize that and accelerate it, it's hard to start to keep them in very specific and pure silos. So, that for us is creating opportunity for growth.

Mike Matson
Analyst, Needham & Co. LLC

Q

Okay. Yeah, that's fair. And then just, you commented on this partnership that you are going to I guess, and I think you were referring to the prior management team had set up this physician for prescriber sales force. I think it was around 60 reps. But I think maybe some of those reps were employed by a third-party or something. I don't remember the name of the company off the top of my head, but is that what you were referring to? And I guess what happens to that sales force? Does it just transition over to Inogen and become Inogen employees or in that number of 60, does that go up, does that go down?

Kevin R. Smith
President, Chief Executive Officer & Director, Inogen, Inc.

A

Yeah. So, it's a fair question there. And couple of answers to that is, yes, there was a third-party within that prescriber channel that we went away from. We're bringing those sales reps in-house. We're restructuring how that looks a little bit for us to be able to have more control, tactical control and strategic control over that sales channel going forward. We are rightsizing that. I'm not going to comment right now on the number specifically in each of these sales channels. But it's important for us, one, to become profitable and to control those expenses. This was an opportunity for us also to control some OpEx, take some of that out by bringing that sales channel in-house. And again, it's important for us to have the right synergy within these channels going forward to be operating as one Inogen. And so, bringing them in-house enables us to move forward with that plan as well.

Mike Matson
Analyst, Needham & Co. LLC

Q

Okay. Thanks. And then just one last one on Physio-Assist. So, just can you comment on – I guess I never really got a straight answer from the prior management team about the timing of when or I guess even the regulatory pathway that this thing is going to have to go through. So, is it a 510(k) and what's the expected timing of when you can get this thing cleared and launch it in the US?

Kevin R. Smith
President, Chief Executive Officer & Director, Inogen, Inc.

A

Yeah. When we look at the Simeox and Physio-Assist coming in, what I will say is, we're very happy with the progress that we've made. We've engaged with the FDA. We're working through that process. And I'm not trying to avoid it, but I do want to be careful on giving any expectations about the regulatory approval until we have that firmly underway. We know we have clarity as to when that's going to happen. So, at the appropriate time, I'll come back and I'll give you some more information on that, Mike.

Mike Matson
Analyst, Needham & Co. LLC

Q

Okay. No, that's fine. But I guess one follow-up on Physio-Assist. So, you called that out in the early part of your prepared remarks about kind of [ph] needing that to (00:31:01) or relying on that to drive growth. So, maybe I'm misinterpreting what you said there, but what does that imply for the POC part of the business? I mean, do you think you can get POCs back to growth without relying on Physio-Assist or other new categories I guess.

Kevin R. Smith
President, Chief Executive Officer & Director, Inogen, Inc.

A

Simple answer, yes, we can. We can get POCs back to growth without relying on Physio-Assist. Physio-Assist, [indiscernible] (00:31:32) into it, there's synergies with that device as well. There's overlay with the patients that will benefit from a Physio-Assist device, Simeox device as well as a POC that will help us develop even deeper relationships, especially with clinicians as well as the B2B channel we see down the road. But we do see a pathway for us to grow the POC business independent of Simeox.

Mike Matson
Analyst, Needham & Co. LLC

Q

Okay, great. Thank you.

Operator: Thank you. And our next question comes from Mathew Blackman with Stifel. Please state your question.

Colin Clark
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Hi, this is Colin on for Mat. I had a quick one regarding US B2B business and how durable you expect the HME expense management to be from here. You talked about revenues being down in the fourth quarter and possibly expecting that to continue in the first quarter. How durable should we expect this environment to be?

Kevin R. Smith
President, Chief Executive Officer & Director, Inogen, Inc.

A

We see good upside within the B2B channel. We've been working on relationships there, building synergies with the B2B, having direct conversations across the globe with our top B2B partners to find out what are the best ways for us to work together to be partners and also reduce the friction between the channels or direct channels as well as the B2B. So, we see opportunities there for us to continue to build and grow that business.

Colin Clark
Analyst, Stifel, Nicolaus & Co., Inc.

Q

And just one follow-up on the market exit from your competitor. Just wanted to confirm, is that in any way factored into the first quarter guidance?

Kevin R. Smith
President, Chief Executive Officer & Director, Inogen, Inc.

A

No, it's not.

Michael K. Sergesketter
Interim Chief Financial Officer, Inogen, Inc.

A

No.

Colin Clark
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay, great. Thank you.

Operator: Thank you. And ladies and gentlemen, that's all the questions we have for today. And with that, we conclude today's conference. All parties may now disconnect. Have a great evening.