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Presenters
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Operator
Well, good afternoon, everyone. I'd like to welcome everyone to the KeyBanc Life Sciences and MedTech Investor Forum. My name is Matt Mishan. I'm our Senior MedTech Analyst. I'm pleased to be joined by Inogen, who's represented today by Nabil Shabshab, the President and CEO. Nabil, thank you for joining us. I'm going to start us off, but this will be 100% Q&A. And if you have questions, they can be submitted directly to me by typing into the box below the video screen, and then I can kind of relay.

So Nabil, just to start off, this is the question I've been asking most companies. Just, how would you compare the current environment and your level of visibility to the start of 2023 versus the last couple of years?

Nabil Shabshab
Thank you, Matt, and thank you for hosting us. It's a good question. So from my perspective, I have to look a little bit retrospectively and look at all the things that we have actually rode off in terms of the turbulence that we had in 2022. So just as a reminder, we overcame the EU MDD. And we have a new MDR certification. We have a 510(k) approval by the FDA. We've worked through the backlog from a B2B perspective, which was not insignificant. We still supplied the EU market during the MDD certification expiry, which was really good. And then we secured Germany reimbursement, and we're working on securing the French reimbursement before the end of the first half.

I think from a supply chain, just to make sure that for the sake of completeness, we have much better visibility in terms of the sourcing of semiconductors for 2023, we had mentioned that we have visibility into the first half of the year extending into Q3. We continue to work towards actually the back half of the year. So that is mainly from the regular supply channel, even though we had both semiconductors, which you can come back to later to cover us for the first half.

The one thing in terms of visibility is the macroeconomic impact and the headwinds from an inflation they remain. Everybody knows that things are a little bit upside down. The impact there is the fact that we're continuing to work with our HME or B2B partners in terms of trying

to land back into normal ordering patterns as part of the macroeconomic things that we don't have a lot of control over. However, we have a few levers that we continue to pull to help our partners get to the right place.

And then of course, last but not least, also in terms of the visibility for 2023 is we have started much more judiciously managing our operating expenses. So I would say overall, the outlook is much different than 2022, better and most of the variables and the macroeconomic one is the one that remains a little bit unknown for us for the time being.

Matt Mishan
Okay. I think it's a good overview. You recently hosted a call that was separate from your earnings call to discuss some changes in strategy and some changes you're making across your channels. Can you do a high level overview of what you're trying to accomplish, and the adjustments and how they fit into your longer term vision of kind of where Inogen is going?

Nabil Shabshab
Yeah. Thank you, Matt. So what we're trying to accomplish with the evolution of our channel strategy is basically be able to cover both upstream and downstream. Inogen was really focused on coveting patients downstream in the DTC, the direct to consumer channel. And only in 2022, we started our effort and focus and investment in upstream. And the reason they are in terms of the objectives we'd like to accomplish, we'd like to give ourselves the breadth in terms of being able to cater to the patient needs if we go upstream or downstream.

Upstream is a much more scalable point of diagnosis, prescription, and in terms of the fact that we can develop relationships with the prescribers at that level and continue to pay it off in terms of profitability and scale. And downstream is our strength, but we're not walking away from it, in terms of catching people downstream that still want to change oxygen modalities because of their dissatisfaction of what they are getting put on. And in the middle, equally important, our B2B partners that are participating in helping us advance the POC based therapy are key and in the center of making sure that we get the right bandwidth and coverage in terms of the patients that we cover. So the overarching balance is going to give us growth and profitability at the same time, which is really critical for us at this point in time as we look forward to the mid and long term.

Matt Mishan
How are you thinking about the size of the direct to consumer sales force? And the marketing budget, following some of the changes?

Nabil Shabshab
Yeah. So we only made some comments publicly about the size of the Salesforce. We said that we were about 250. Now, if you compare it from a year ago, we were in the 300 range, give or take, plus or minus 10%, or 15%. Were today or 250. We said that also by the end of the year, we'd have trended down from that 250 number. And I'm going to connect it to the second part

of your comment or your question. We are also working on optimizing our advertising spend. And I'm going to take it back to the objective that we started with a few minutes ago. The aim there is to make sure that we optimize that cost of buying that lead and paying it off and closing it with the right size of the sales force so we can get to that optimal level of both growth and profitability for the long term.

Matt Mishan
I mean, and then you provided some stats. You've had some trial programs. This is not something which you're just changing. You've kind of walked through those pilots. What are the leading indicators Inogen is most likely to focus on and demonstrate that it's kind of working?

Nabil Shabshab
Yeah. So I think--I like the fact that you referenced the pilots. During the pilots in Q3 and Q4, we really isolated the variables that make the most impact in terms of us moving forward. And to your point, also Matt, these are the things that we are focusing on in terms of leading indicators, are we getting there, in terms of the desired productivity or not. I'm just going to cite a few for the sake for the sake of completeness.

We'll look--and this is DTC. We'll look at cost per day by rep. We'll look at talk time, how much people can keep the patients on the phone and be able to actually sell through with the value proposition. We'll look at the number of opportunities per rep, that they actually translate into units sold. That's really critical, the conversion rates. And these are just a few things that we focus on, but they are leading indicators that are trending positive based on scaling up the pilot. And we're on track but we said we need--Q1, Q2 of 2023 are the required timeline for us to get to steady state in terms of that performance with the right size of the organization and the right investment from advertising perspective, albeit that we are definitely looking for ways with that productivity to reduce advertising spend back to the profitability comment.

Matt Mishan
So this is kind of bridging from from your direct to consumer sales force, direct to prescriber. So you have two sales forces. You have a direct to consumer sales force, more of a call center model and bringing in--you get leads, you bring in, you try and convert them either to a sale or into your own DME, which is your direct to consumer rental channel. When I think about that direct to consumer rental channel, what's the right mix of low throw?

You have this direct to consumer salesforce, and you have this directive prescriber salesforce. Are you moving more towards the direct to prescriber salesforce, flowing into that direct to consumer rental and de-emphasizing that direct to consumer? I'm just trying to understand how you're trying to balance the two.

Nabil Shabshab
I think it's a common question, so thank you for raising it, Matt. So we are not walking away from the direct to consumer channel. It is a strength for religion. It's a differentiator and this

gives us the ability to connect directly with patients, albeit downstream. Now, with that said--and by the way, that advertising that we spend on the DTC channel gives us the brand recognition and ability so when we go upstream, we've got patients also advocating for themselves to get on the right POC, not only in terms of the model, but the brand itself. So that will remain there.

The reason we went upstream, so the prescriber goes back to the scale and the profitability of these channels. And if we are going to--if I look retrospectively at the level of penetration of POC based therapy out of the total, and I see it at 22%, based on CMS data and 14%, based on IQVIA data that has other payers in it, there's a lot of runway. That penetration rate is not going to go up by only using one of the levers. The lever is our HME partners, we have to also participate upstream. And the people ask me, so why are you going upstream? We are approaching it very differently than others.

We are approaching it from a clinical perspective. So we're focused on market development, on actually highlighting the guidelines, sharing clinical studies, either existing or the ones that we're working on to make that size of the pie bigger in terms of the prescriber channel which is upstream. And the reason there, I will actually use one word only, scale. If I go there and I deploy a salesperson, I can get multiple prescriptions per month per prescriber. If I cover enough prescribers that are the top decile prescribers with the right frequency, then I can start scaling that business without incremental costs, significant incremental costs, and it allows me to get those patients on rental at the maximum amount allowable to them.

If I get you the moment you are prescribed, diagnosed and prescribed, most probably I have about 35 or 36 months remaining of billable months, call it at $135 a month. But if I wait for you downstream to either come when you're dissatisfied and buy on cash and or be on a rental program, most probably you've lost six, seven, eight months of those. So if you're not the cash buyer, I'm already constrained in terms of how much I can bill, so back to the scale and the profitability. There's a need for us to keep both, and there's a need for us to partner with the B2B HME partners, because there's a lot of fragmentation and there's a lot of prescribers. I think together, we can get there more than we can get singularly, but we are taking matters also into our own control because we cannot continue to wait for that penetration to go up. We have to drive with ourselves with that investment.

Matt Mishan
Well, I'm a big fan of the direct prescriber model, I think it's a good channel for for long term growth, and you've gone about it in a little bit of a different way. You've gone about it in a partnership or a joint venture with Ashfield. Just, can you explain what the relationship with Ashfield is and how happy you are? It's been about, I'd say, almost what, 18 months or so since you started that that partnership? How happy are you with the early efforts between you and them?

Nabil Shabshab

Yeah. So I'll characterize it as we're pretty happy with the relationship and the partnership that we have, and I'm going to carry it out with the fact that all of these new channels that you stand up, require refinement and actually tweaking so you can get to the right level of productivity. So what Ashfield brings is the ability to give us enough resources that we stood up with scale and with speed, but also all the analytics that power where we go in terms of which prescribers we want to cover, and with what frequency and then how do we measure our productivity. So those come part and parcel.

The one thing we're doing with Ashfield, in the partnership that we're pretty happy about, there's always continuous improvement in terms of refining between the coverage scope and the frequency, and then being able to tie it down to your plan in terms of what's in your AOP and your annual operating plan. So we continue to look at the progress that we made. As a reminder, we grew 23% from when we started till the end of the year. We continue to look for ways to replicate that and accelerate it, especially in terms of productivity by utilizing the Ashfield not only as a go to market source, because we've got Inogen salespeople and Ashfield salespeople, but also the underlying analytics that can help us refine that go to market strategy and improve the return on investment on it.

Matt Mishan
I think this is the key question, or one of the key questions for Inogen. And I think I asked this last year too but want to see how thoughts may have evolved on it. How do you get the physicians or healthcare systems, like a broader healthcare system, to transition from prescribing oxygen flow, which is what they currently prescribe, to a specific modality or device and then specifically to an Inogen branded device?

Nabil Shabshab
Yeah. So I think it's a great question. So it's a combination. The strategy is twofold. One is actually the blocking and tackling of part of the strategy and one is the clinical part of the strategy, and they intersect at some point in time. So within the prescriber team, so the salespeople that call on these prescribers, the focus is equipping them with the right promotional material. What do I mean by that? Material that can demonstrate the clinical value of POCs, and specifically, over time, the benefit of the Inogen devices. So that would be phase two.

So you want the claims that these people show up to the prescriber with to be supported with adequate clinical evidence, the right level of clinical evidence. So we have a scientific advisory board that can guide us, that is guiding us today in terms of what clinical evidence we need to go generate and how can we start shaping and influencing some of the guidelines and or the propensity of a prescriber to be very specific in their prescription to put modality not only liters or flow per minute.

So the clinical trials that we are focusing on that will aid in that are a combination of either real world evidence generated from our own devices in terms of what patients are using, what

settings, how do they titrate and tweak it, and or clinical evidence around--and that also, we're looking at an external database, specifically a large database from the Ministry of Health in France to be able to mine that data and look how patients are managed and then what issues are they facing based on the modality. So those are hopefully to be published towards the end of this year in 2023, that you can, to your question, you can take back, equip your salesforce with the right clinical evidence and the promotional messaging to drive that preference.

Also, the key opinion leaders, in addition to our Scientific Advisory Board, have an interest in promoting the right modality for the right patients. So also giving them that clinical evidence and then being able to influence the people that actually look up to them in terms of guidelines, and treatment modalities is also helpful in that way. So it's a two-prong strategy, clinical and market development and blocking and tackling in terms of sales tactics, plus promotional clinical supported efforts.

Matt Mishan
And what do you think about the momentum of that currency, also? To some extent, the momentum, the important momentum is in that direct consumer rental on the sequential improvement you kind of see as you get more patients on that, but specifically, what are you seeing out of the reps from Ashfield from a productivity perspective? And how can you improve that?

Nabil Shabshab
Yeah. So I think the critical things, you want to balance the prescribers that you have today, and you want to add enough new prescribers, albeit guided by who are the highest decile prescribers, and then you want to fine tune the frequency. So the metrics are, how many prescribers do I have existing? What prescriptions am I driving from them? Who are the new prescribers am I adding and at what rate? Because you want to get to that sort of the right balance between the two, because you're going to max out on call frequency and coverage, so you want to balance it. And then the new prescribers, you want to develop them over time. So you're looking at that development phase. Meaning I've acquired--I've established a relationship with you today. Am I seeing the growth in prescriptions and the trajectory that I need to look at?

So all of these are very important. And then you can say overarching, how am I going to get to my fair share of prescriptions by office that I target based on the priority? And we know how many, from just establishing the relationship, you know how many prescriptions are being doled out every month and are you getting your fair share, as well as the other HMEs. You want to get to that stage also in terms of looking at productivity metrics.

Matt Mishan
I mean, do you have a metric where you know exactly how many of the high volume prescribers you are currently working with, or prescribing at least one Inogen device? And I guess it doesn't have to be through Inogen. It's a prescription that's written for an HME partner. Which--

Nabil Shabshab
Yeah. So the total, there's a fragmentation of the prescribers. If you start including general practitioners and primary care physicians, they also prescribe oxygen therapy. I'm going to stay focused on the, let's call it the core prescriber market. Roughly about 15,000 prescribers, out of which 5,000, close to 5,000 are the highest decile prescribers, and you want to be able to cover most of these over time with the right frequency, which is very important. So you're going to trade off early on spread and coverage by getting to the right frequency. This is back to the fine tuning of how do we get there over time and as we continue to invest in terms of growing that sales force in the field.

Matt Mishan
Okay. And then you started laying out a pipeline of products and potential indications in the pipeline. What do you think would be most impactful to the Inogen portfolio kind of moving forward, as you kind of look at those slides where you're just driving your pipeline indications?

Nabil Shabshab
That's a great question. Let me start with the basic. The basic is, we still have a lot of runway for growth with our COPD and existing portfolio. So we're going to put that aside. With the commercial execution you inquired about, that should be attainable in terms of driving growth. When we start looking at sort of stages of growth or runways, I have to look two years down the line, four years down the line and six years down the line, like we laid it out. One of the things that we started with is if we want to stay within COPD, and we want to grab some of the patients that today we cannot get to because of higher flow, that's why we designated a six plus setting, so more than six settings. We're not saying if it's seven or eight yet, but you want that ability.

Now beyond that, if you start looking at the characterization of the markets and their sizes, let's for the sake of the illustration here, let's talk about dyspnea, which is shortness of breath. It doesn't mean that I have COPD. I could have dyspnea before COPD. It could be the other way around. But if you look at the comparative sizes in terms of growth from new product introductions, and you look at dyspnea, it's about twice as big as the COPD market in terms of the patients. And today, back to the innovation pipeline, if I start adding ventilatory support to my POCs, which is in our plan, I can get to that dyspnea patient population, which is two times bigger, with lower, half the oxygen penetration, long term oxygen therapy penetration.

So these adjacencies, the beauty of them is they are very close to COPD, they're the same prescriber and call point, same physician that is prescribing and treating those patients, and they are on oxygen therapy. So let me maybe illustrate with the POC with ventilatory support. I can use oxygenation, I can use ventilation, or I can use the combination of in one device today, when we get to it. This is the second wave in terms of innovation. But the sizes of these markets are much bigger than COPD and or the value is higher. So if you get to hypercapnic patients that have co2 accumulation in their bloodstream, and there is no real ambulatory

ventilatory assistance, that when I go about, I can't really actually try to get the co2 evacuated from my lower part of the lungs. Those are smaller market sizes, but they're much higher value in terms of reimbursement.

So if you look overall, mainly the one thing I would like to leave people with, if you look at the innovation pipeline and the balancing of the size of the opportunity, the difficult clinical value, technical difficulty and securing regulatory approvals, be it here or be it in Europe, you find a nice balance within that. And those are contributory to the growth runways beyond our core portfolio, starting from two years onward. You start layering in these newer indications within your pipeline. And the one thing I forgot to mention, and just for the sake of completeness, we are, in any of these, we're trying to compete beyond the device feature functionality.

So when we talk about remote patient monitoring, it's a real effort that we're putting in there, because we believe there's value to the patient, there is value to the prescriber also, and there is monetization opportunities for Inogen and the prescriber also, as per existing reimbursement codes. So that ability to help the patient get on top of the disease or the caregiver providing higher quality care because they have data is very important in terms of not only devices, not only new indications, digital health on top of it.

Matt Mishan
Okay. Do you think you're going to be able to show with data, the solutions you're providing with your devices, kind of meet some unmet clinical needs and you can--when do you think we're going to be able to kind of see data? Because I think there's probably a population of doctors that need to see that to support adoption.

Nabil Shabshab
Yeah. So I'm going to maybe separate it just into two things quickly. So one is on COPD and the other one is on the innovation portfolio. Let me address the innovation portfolio. It's quicker and easier. As part of our new discipline that we've never had before, there is a clinical filter in the beginning that identifies not only the patient population, the indication and the potential endpoints, clinical endpoints that we want to demonstrate value in. And there is, as part of the development, there's early on work either from already published work or some small sized clinical studies that we run to make sure that we are going to get there. So on the new portfolio, that clinical hurdle that you mentioned, will be part and parcel and the way you can drive penetration faster than before.

On the on the existing COPD, I think I sort of mentioned a little bit. So we're looking at data in terms of real world evidence. So those are attainable within this year, hopefully, as we continue to look at that data, apply data sciences to it and write mining to be able to publish around which patients are on what modalities, how are they doing and what is the deficiency that they have. So that's one side. We are also running a couple of studies, that one is around titrating people during sleep on pulse oxygen therapy and getting them to the right saturation level. So we'll see what the clinical study gets to, but that would be a key point in convincing clinicians

that POCs could be used at night. And the other one is actually using POC modalities and see the impact during exercise and or activity. And hopefully that will be another point that can drive that whole promotional message supported by clinical data. And one of these is within '23 and the other one is actually close to 2024.

Matt Mishan
Okay. I want to shift over to kind of the investments that you've made and profitability and gross margin. So on gross margin, I mean, obviously it decelerated into last quarter. What do you view as transitory as far as that, and how quickly can it begin to normalize?

Nabil Shabshab
Yeah. So I think--let me--the biggest part of the transitory, so there's a couple of things we have to think about. There's a significant portion of the margin compression that came from the channel mix from DTC being weaker than people expected. And that was a decision that we made in terms of we had to evolve the organization to get to that profitability and growth rate, and that's a significant component. As this gets into steady state, that portion, in my mind, of the margin compression, is to be labeled transitory and will recover over time, especially in the back half of the year.

There was another component that was not insignificant, also in the premium price we paid for the semiconductors. So just by way of reminding, so in 2022, we spent about $24 million in premium pricing for chips. We also pre-bought for 2023, to ensure the first half of the year, about 17. We're not saying that this is it, but we don't expect the number to go much higher, and anywhere close to 2022 if nothing surprising comes up. So that also, that compression in the margin, is also transitory in nature, albeit it will start burning off towards the end of Q3 and then hopefully it will disappear in Q4 moving forward into 2024.

And then the last component that people saw in Q4 results was the top off of the warranty service because we have data now that says, okay, we've got five years of data, there was a top off required in terms of warranty and service, that also is a one-time top off and hopefully will be managed moving forward. So that's some of the transitory. Now, of course, we mentioned during the last time we talked to people, that we have now a much more focused program in terms of managing operating expenses. So that is on the other side of it. So things are transitory, and then we're trying to be much more judicious and make sure that in the baseline moving forward as we continue to grow, we've looked long and hard at where we can contain some of the operating expenses so when we scale, you get leverage in the P&L.

Matt Mishan
Okay. And you've guided to an expectation of positive adjusted EBITDA by 4Q '22. How should we think about just balancing investment and profitability going forward? If you can kind of get to that breakeven EBITDA and you start seeing positives emerge in your portfolio, are there

investments that you still need to turn on? Or as part of your efficiency efforts, are you holding back on some things waiting to see what works, what doesn't?

Nabil Shabshab
Yeah. So I think maybe at the high level, in terms of funding the growth, in terms of the investments that you're referencing to, we have the right level of investment in terms of the channel strategy, the prescriber strategy. We're trying to optimize on the other side, so we can fund other investments, albeit that there might be some tweaks or puts and takes there. From an innovation perspective, we are going to scale back a few things that are much further out in terms of managing expenses just in the interim, but we feel comfortable about the level of investment be it on the clinical side and or on the product development side.

And I think--so we had made the comment publicly, we will get back to adjusted EBITDA positive by Q4, and we're still standing by that. In terms of how we get there is a combination of the things that transitory that we discussed that will go away, operating expenses, while we're funding the growth strategy adequately. I don't think I can call out any major program that they say, if I had the money, I can go accelerate growth that dramatically and I'm not funding it today. We're not doing that.

Matt Mishan
So when I think about EBITDA and free cash flow, your net cash balance, income, not expense, taxes, I mean, you still have--taxes are like zero at this at this point, or negligible, and then capex. I mean, capex is some investment in to your own POCs for your direct to consumer rental, but for the most part, capex is kind of fairly limited. So the cash outflows, if you were to breakeven, should appear to be like fairly limited at this point. Is that sort of fair?

Nabil Shabshab
Yeah. Yeah. I'm going to have Kristin make a few comments because we expected the question like that. So if you can actually bring Kristin on, guys, so she can answer the question.

Kristen Caltrider
Matt, can you hear me?

Matt Mishan
Yeah. We can hear you all right.

Nabil Shabshab
Can hear you but we cant see you.

Kristin Caltrider
Oh, I enabled my video, so I'll just speak in dark. So when we're talking about cash flows, you did a great job outlining the numbers that are out there other than the adjusted EBITDA. That's why we talk about adjusted EBITDA, because that's our first step toward profitability, right?

And when I talk about it, really the only other item that I would call out is the capex, which you noted really isn't super material. Last year was about $20 million. So that's really not a big gap. We also finished the year in 2022 with pretty significant accounts receivable balance and inventory levels. So as those bleed off, those would generate cash. So we're hopeful. We haven't guided on what's going to happen with our cash flows, but that gives you a little bit of color of some of the moving parts that could get us to cashflow positive in the near term.

Matt Mishan
Okay. And when you think about that cash investment, that cash balance kind of versus the market cap for Inogen at this point, I mean, they're sort of becoming--they're sort of coming a little bit closer together than you would normally have expected. You're at about $190 million of cash and a $300 million market cap. I mean, with what it seems like to be, which would be free cash flow, which could be relatively stable over the next couple of years. Your plan is already relatively kind of implemented. I guess, the real question is going to be, investors are basically getting Inogen sales for .25 times. They're not really valuing Inogen, they're obviously missing something. Kind of what do you think investors are missing with the current market cap?

Nabil Shabshab
So maybe I'll start and then Kristin, if you keep her line open, Kristin can weigh in. I think we're in a transition--like we call the transformation and tightening of our strategy moving forward in terms of what yardstick are the investors used to measure our success. And I think if I had to characterize this at the high level before Kristin weigh in, today, the metrics we're asking people to measure us on are much more durable and sustainable. Once we succeed, they can give you a medtech organization that can scale with profitability at the same time and have durability in terms of performance.

So before, it used to be a single yardstick. It's like, okay, is DTC doing well or not? And it takes time for us to, now we've demonstrated the success of the prescriber channel strategy, we have to pay off now the optimization of DTC and then we have to pay off also, if people think about growth, I have to see new product introductions. So we're set but we're in a transition period, is my perspective. Kristin can weigh in a little bit more on maybe the financial aspects of it.

Kristin Caltrider
No, Nabil, you got it. I think that it is the transition that folks are waiting to see the proof of all of this change that we have introduced. So I thought it was well said. Not a lot more to add there.

Nabil Shabshab
And return to profitability, of course. People are eager to see us do that and we're committed to adjusted EBITDA positive, and we'll give updates along the year, so we'll see.

Matt Mishan
All right. And then I think we're pretty much out of time. I don't think, Nabil, you've left anything dangling at this point.

Nabil Shabshab
I don't think so.

Matt Mishan
No, all good.

Nabil Shabshab
Matt, at least I don't feel on this side, any impacts. Okay, Matt.

Matt Mishan
All said. Thank you very much.

Nabil Shabshab
Thank you so much for hosting us. Thank you. It's good seeing you.

Matt Mishan
Yep. You as well.

Nabil Shabshab
Bye. Bye.