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# Inogen, Inc. (INGN)

Q3 2022 Earnings Call

## CORPORATE PARTICIPANTS

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**Nabil Shabshab**

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

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## OTHER PARTICIPANTS

**Mathew Blackman**

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**Margaret Kaczor**

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Welcome to Inogen's Third 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, November 2, 2022.

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

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**Agnes Lee**

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

Thank you, Brock. Good morning, everyone. Joining me today are Nabil Shabshab, President and CEO; and Kristin Caltrider, our CFO. Earlier this morning, we released financial results for the third quarter of 2022. This press 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 2022 and beyond; expectations related to our financial results for the fourth quarter of 2022, and expectations related to a return to profitability; our expectations with respect to supply challenges and cost inflation related to semiconductor chips 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 teams; 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 the short-term and the long-term. The forward-looking statements in this call are based on information currently available to us as of today's date, November 2, 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 SEC.

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 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. Reconciliations between the US GAAP and non-GAAP results are presented in the tables within our earnings release.

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

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## Nabil Shabshab

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

Thanks, Agnes. Good morning, and thank you for joining our third quarter 2022 conference call. I'm incredibly pleased with our team who did a tremendous job of fulfilling our B2B backlogged orders from Q2, as well as driving revenue in Europe and the countries where we were granted derogations or exceptions.

We have also demonstrated excellent progress against our prescriber strategy that we started at the end of Q1 2022, delivering excellent growth and contributing to the strong performance this quarter. The extraordinary effort of our team resulted in a third quarter year-over-year constant currency revenue growth of 14.5%.

Similar to the other MedTech and consumer health companies, we are focused on understanding and addressing, to the extent possible, emerging risks associated with the unprecedented ongoing market conditions.

Macroeconomic and inflationary pressures are generally outside our control. Hence, we are acutely focused on levers in our control to mitigate part of those risks and more critically stay the course with our transformation aimed at delivering durable and sustainable growth and a return to profitability in the medium- to long-term.

Hence, during this call, I would like to take a moment to frame our strategic initiatives and time horizons, then address how we are managing the remaining supply chain challenges, update on the progress around commercial excellence and productivity, and share initial thoughts on optimizing operating expenses. These elements are intended to help deal with some macroeconomic and market headwinds and, more importantly, continues to drive the ongoing transformation.

Let me cover our strategic pillars and related time horizons first. Our strategic pillars, including – include driving oxygen therapy, market penetration, and accelerating new product introductions in our core markets, while diversifying our portfolio.

At the right time, we plan to expand our portfolio channel and global presence through inorganic efforts. We see our strategic initiatives organized across three time horizons that build durability and sustainability and top line growth and enable the long term aspiration of returning to profitability.

In the short term, with the best-in-class portfolio in place, commercial excellence and execution remain our primary focus. Efforts and investments are focused on standing up, enabling tools and systems, instilling high rigor and discipline in sales management, and optimizing our talent base to drive sales and service productivity and expand market penetration.

In the medium to long term, while building on the expected market position as a result of the ongoing commercial execution, we anticipate introducing a pipeline of new and improved POCs, including a next generation POC and a device plus offering that will include value-added digital health services that will benefit patients and clinicians.

In the longer term, organically, we anticipate further strengthening of our portfolio with further new product introductions to address new patient populations and indications in oxygen therapy or combination therapy and making digital health value-added services a core pillar of differentiation and growth.

Inorganically, we'll continue to look for opportunities that align with our strategy and help accelerate growth and profitability. Our R&D and product development teams are accelerating their efforts to drive innovation and hence new product introductions in the medium and long term to drive growth. Additionally, across the medium- and long-term horizons, we plan to [ph] assertively (00:07:22) build a dossier of clinical and potentially economic evidence to drive advocacy for POC-based oxygen therapy for COPD and beyond.

Turning to supply chain, we have continued the relentless focus and investment to secure semiconductor inventory. Our team's diligent and persistent efforts continue to help us mitigate most but not all supply chain pressures by actively managing our regular suppliers, proactively sourcing parts on the open market when possible, and redesigning our products to work around certain acute shortages. We have made notable progress in managing supply chain challenges this year, but see some uncertainty continuing at least into 2023.

With respect to commercial excellence and productivity, we have made steady progress this year building our prescriber teams, working towards optimizing our direct-to-consumer overall team performance and strengthening our B2B organization and strategic account management.

For our rental business, we have increased revenue more than 25% for the first nine months of this year compared to the same period in 2021. We have continued to refine our coverage and targeting strategies to add new target prescribers, while increasing referrals from existing and new prescribers.

Additionally, we have been actively expanding our market access to secure coverage from private payers, as most patients in the prescriber business are expected to be rental patients. We recently added Humana with approximately 25 million covered lives in the US, which is expected to drive sales productivity by expanding the overall number of prescriber referrals that we can convert to rental patients.

We are incredibly pleased with the solid results delivered by prescriber team and with the ongoing efforts to further refine our go-to-market strategy and we see a path to improve productivity and accelerated performance in 2023.

For our DTC business, we have continued to build and refine systems and tools that enhance our ability to be more data-driven in our efforts to improve sales management, drive productivity, and optimize performance. We are also continuing with our newly developed discipline around talent selection, development, onboarding and training. As a result, we are seeing notable acceleration of the productivity ramp for new sales associates as well as improvements in conversion rates across the organization.

As we continue to enhance our commercial leadership and discipline, we are already seeing notable and promising productivity improvements across our direct-to-consumer and prescriber teams that we plan to institutionalize and scale during 2023.

Turning to our aspirations of returning to profitability. I would like to reiterate that the price increases we took successively in September 2021 and March 2022 were aimed at mitigating margin compression and are expected to flow through our P&L, especially when the incremental supply chain related costs [ph] of (00:10:25) late 2023 and beyond as currently expected.

Macroeconomic challenges could present certain headwinds in the short term and the short to medium term, but we remain committed to funding prioritized growth initiatives in support of long – of our long-term growth aspirations. As we look towards 2023, we will further focus on operating expenses, including optimizing commercial operations, supplier management and dual sourcing and process optimization, as well as diligent overall operating expense management.

In support of these initiatives, in August, we added Vijay Paliwal to our leadership team as Inogen's SVP of Enterprise Enablement to drive cross-functional process optimization and digital transformation through connected systems, optimized workflows and on-demand data in support of productivity, agility and efficiency goals. Vijay and his team will also play a significant role in re-architecting and delivering a differentiated, sustainable and scalable experience for our customers and patients.

Before sharing thoughts on the horizon ahead, I would like to provide an update on the European regulatory clearances. The review of our European MDR submission is progressing as expected. We are cautiously encouraged by the progress, but we cannot speculate on the timing yet. We will provide an update when we have approvals.

Our previous strategy to file derogation requests in a number of European countries resulted in receiving exceptions or approval to continue selling our POCs in five countries including France, where we were allowed to continue commercialization until the end of October, and the UK, Austria, Portugal and Switzerland until the end of 2022 approximately.

As evidenced by our revenue growth this quarter, the underlying demand for our offering remains steady, but we continue to monitor potential headwinds as a result of the ongoing adverse microeconomic conditions and potential supply chain interruptions. Our experience and track record of managing supply chain interruptions should help us navigate similar challenges in 2023 if unexpected supply chain dynamics [ph] do not (00:12:38) present.

At the same time, we are steadily progressing our strategic initiatives to drive productivity in the commercial organization and to strengthen our new product pipeline and build out our clinical evidence dossier. Our strong balance sheet, cash position and pricing excellence allow us to manage medium term cost challenges and continue to execute our long-term strategy and return to profitability. We are making progress on our strategic initiatives, setting us up for scale and return to positive free cash flow late 2023 and beyond.

We have short to medium term visibility into supply of semiconductors and as such, we are providing revenue guidance for the fourth quarter. We look forward to updating you on our progress in the fourth quarter and providing further information on our opportunities and execution to drive 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.*

Thank you, Nabil, and good morning, everyone. Total revenue for the third quarter of 2022 was \$105.4 million or 13.2% year-over-year growth from the third quarter of 2021. The increase was driven primarily by higher sales to our domestic business-to-business channel as we made good progress towards remediating backlogged orders accumulated earlier in the year.

We also drove a significant increase in rental revenue and higher than expected sales in our international B2B channel, driven by an increase in European countries, which allowed exceptions or derogations enabling us to continue to sell our products in each regions in the quarter. This growth was partially offset by lower direct-to-consumer sales as we prioritized shipment of the domestic business-to-business customer orders. For the third quarter, foreign exchange had a negative 130 basis points impact on total revenue and a negative 550 basis points impact on international revenue. On a constant currency basis, third quarter total revenue increased 14.5% over Q3 2021.

Looking at revenue on a more detailed basis, domestic B2B revenue increased 86.7% to \$42.5 million in the third quarter of 2022, compared with \$22.8 million in the third quarter of 2021, as we prioritize fulfillment of the backlogged orders in this channel. International B2B sales decreased 30.9% to \$15.1 million in the third quarter of 2022 from \$21.8 million in the comparative period, driven by a limited ability to ship internationally due to the expiration of the EU MDD certificates.

Domestic direct-to-consumer sales decreased 9.1% to \$33.1 million in the third quarter of 2022 from \$36.3 million in the comparative period, primarily driven by lower volume as we prioritize fulfilling orders in the US B2B channel. This was partially offset by an increase in average selling prices.

Rental revenue increased 21.3% to \$14.7 million in the third quarter of 2022 from \$12.1 million in the third quarter of 2021. The growth in rental revenue was driven by increased patients on service, higher billable patients as a percent of total patients on service, and higher Medicare reimbursement rates.

Now, on to discuss our gross margins. Sales revenue gross margin was 38.4% in the third quarter of 2022, declining 1,170 basis points from the third quarter of 2021 due to the unfavorable channel mix and higher material costs driven by open market buys and inflationary pressures, partially offset by higher selling prices.

Rental revenue gross margin was 54.5% in the third quarter of 2022 versus 58.9% in the third quarter of 2021, a decline of 440 basis points. The decrease was primarily driven by increased service costs and device write-offs, partially offset by higher Medicare reimbursement rates.

Moving on to operating expense. Total operating expense increased to \$53.1 million in the quarter compared to \$41.3 million in the third quarter of 2021, an increase across all categories. First, we have continued to invest in research and development with a total spend for the quarter of \$4.6 million, an increase of \$800,000 versus the third quarter of 2021. The majority of this increased spend was in support of product development activities.

For sales and marketing, the total spend for the quarter was \$33.7 million. The \$5.4 million increase in the spending was primarily related to bolstering our prescriber business, increases in media and advertising costs, and increased subscription fees and consulting expenses associated with improving analytical tools and sales rep productivity.

And, finally, we incurred \$14.8 million for general and administrative expenses. The \$5.5 million increase was primarily due to the higher personnel-related expenses aimed at rebuilding core capabilities, as well as a decrease in the benefit from the change in fair value of the New Aera earnout liability.

In the third quarter of 2022, we reported a net loss of \$9.5 million and loss per diluted share of \$0.42. On an adjusted basis, we reported a net loss of \$4.1 million and an adjusted loss per diluted share of \$0.18. Adjusted EBITDA was a \$1.2 million loss. Notably, on a constant currency basis, adjusted EBITDA was roughly breakeven.

Moving on to our balance sheet. Inogen continues to maintain its strong balance sheet as of September 30, 2022 with cash and cash equivalents of \$209.6 million with no debt outstanding. Accounts receivable balances increased to \$50.5 million as of September 30, 2022, driven by the large increase in B2B shipments in the quarter. We continue to make investments this quarter in our inventory, incurring significant additional costs for the semiconductor chips purchased on the open market, but not yet sold in finished goods. These items reside on the balance sheet as prepaid expenses and other current assets and inventory. As of September 30, 2022, the value of prepaid components in these balances were \$9.8 million and \$3.6 million, respectively.

I will now turn to our financial outlook. As Nabil mentioned earlier, we are providing revenue guidance for the fourth quarter. We are now expecting total company revenue for Q4 2022 in the range of \$87 million to \$92 million, resulting in growth of 14% to 20% on a year-over-year basis. To further help provide context for modeling, we will continue to actively manage our supply chain constraints, including forward buying of semiconductor chips. This increased cost is expected to cause margin compression in Q4 2022 and into 2023. We do not have line of sight to when the supply chain disruptions might subside. But as this impact is reduced, the offsetting impact of increases to our selling prices taken in Q3 2021 and Q1 2022 will remain, potentially allowing for margin expansion over time. We also anticipate that prepaid and inventory balances will decline as these components are sold through in the form of finished goods.

From an operating expense perspective, we expect to see similar levels of spend in the fourth quarter in line with our original long range plans aimed at strengthening capabilities. As we look to 2023 and with the economic uncertainties ahead, we are judiciously looking for ways to drive toward positive free cash flow, while continuing to invest in our key initiatives, which set us up for long-term revenue growth and a return to profitability.

And with that, we will be happy to take your questions.

## QUESTION AND ANSWER SECTION

**Operator:** At this time, we'll be conducting a question-and-answer session. [Operator Instructions] Our first question today is from Mathew Blackman of Stifel. Please proceed with your question.

**Mathew Blackman**

*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Good morning, everybody. Thank you for taking my questions. Just two for me. Maybe, Nabil, I think one of the biggest challenges in our [ph] seat (00:22:52) is trying to get a sense of true underlying demand in each of your channels, but especially in the US, given the supply noise, but also price increases. Is there any way you can talk to what you think the demand picture looks like in the US DTC and B2B businesses? And I've got one follow-up.

**Nabil Shabshab**

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

A

Yeah. Hey, Mat. How are you today? So, let me start by saying, I wish that we were in a full supply situation for me to really have a strong assessment. Can we actually meet and do we have excess capacity versus the demand in case just it's like softening a little bit.

In general, we have not seen a major softening in demand as evidenced by either the cash sales in the DTC channel and/or the B2B orders that we've really remediated. And we continue to see a very healthy conversation in terms of how we're going to end the year and get back to normalized supply situation on the B2B side, as I said, especially in the US.

So it's difficult. We know that the macroeconomic conditions and potential inflationary pressures might have an impact. We are working hard to try and isolate that. As you said, it's not easy to be able to pull that out from the performance, but we're being very diligent in terms of how we're watching for that. But so far, I think the demand is, I would say, steady, and we're keeping an eye in terms of if there's any impact from the macroeconomic conditions.

**Mathew Blackman**

*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Great. And then the follow-up. As we think about the fourth quarter, what percent of your OUS business do you have line of sight to be able to sell into. And it also sounds like the derogations you do have will expire by year-end. I know you don't want to speculate on timing of approval, but is it realistic to expect MDR approval could come such that there isn't a gap early next year? Thanks.

**Nabil Shabshab**

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

A

So maybe there's -- so thank you for the question, Mat. Let me start, first of all with the -- we have not moved so far from the progress that we have seen that we are cautiously optimistic about. We have not moved the approval date for the EU MDR certificate from Q4. Also, if you remember, we actually not only got the derogations and the exceptions, in fact, five countries that allowed us to continue to supply those specific countries. But we also had chip a little bit more in terms of -- against our open orders in Europe to make sure that we can meet the demand. We believe that between the three variables at play, we would be able to cover the gap that you might be thinking around or modeling for and the revenue for this year.

**Mathew Blackman**

*Analyst, Stifel, Nicolaus & Co., Inc.*

Thank you. Appreciate it.

Q

**Operator:** The next question is from Mike Matson of Needham & Company. Please proceed with your company.  
[ph] Go ahead with (00:25:39) your question.

**Nabil Shabshab**

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

Hey, Mike.

A

Q

Hi, this is – hey, this is [ph] Joseph (00:25:44) on for Mike this morning.

**Nabil Shabshab**

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

[indiscernible] (00:25:45).

A

Q

So, I guess just first one, it seems like with inflation, the labor shortage that we're seeing, the economics of POCs may have become more favorable for HMEs. Just kind of want to get your guys thoughts on that and what you've been hearing from your B2B customers?

**Nabil Shabshab**

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

So maybe -- [ph] Joe (00:26:13), let me go back to the basic premise. I think if you look at the industry coverage and the lobbying by the HME industry, I think the macroeconomic conditions and the inflation, be it in wages or in other costs are not favorable to the HME model. I think they are maybe favorable to the rental model slightly. But if you look at how the lobbying is happening in terms of the reimbursement rates, the first and foremost thing that I cited is increasing cost of the HME delivery model. That's why we think the demand delivery model in terms of POC-based therapy remains advantage and continues, I think, to be a very strong proposition in terms of overcoming some of those challenges.

I think here, to the second part of your question with respect to what you're hearing from B2B. Ongoing, I think healthy conversations in terms of how is that – first all. So, we mitigated most, but not all of the backlogged orders, which I think was received very positively in the channel itself, in the B2B business. Now the discussions are ongoing in terms of how we mitigate the remainder of the orders for the year as well as when we get back to normalized sales levels, what does that look like? But we are continuing to see healthy orders coming in, in general, with the few exceptions here and there, but they're not notable, in general.

Q

Maybe just a quick continuation on that, and then one more. If possible, do you think you can size the backlog, I guess, still remaining with the US customers that have been worked through? And then just a follow-up on that. In terms of the physician sales force and, I guess, some of the productivity improvements, is there any way that you can kind of give more detail on the metrics of the productivity gains? Just to kind of give a little bit more color about what you guys have done there this quarter, this last quarter? Thank you.

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**Nabil Shabshab**

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

A

Okay, [ph] Joe (00:28:17). So, let me take the simple one first. We're not going to make comments on sizing the backlog of the orders in B2B. I think if you look at the performance in the quarter, really we remediated a significant portion of the backlog. And, if you look at the historical rates in B2B shipments, you realize that this was a significantly strong quarter in that channel, and Kristin can comment on that later on.

So, let me go to the physician sales force or the prescriber sales force. As we indicated earlier in the year in March, this was relatively new, but this was our key strategic focus in terms of actually expanding penetration of POC-based oxygen therapy.

I think the productivity that we've seen relates to three things basically. One is an ability to actually get the right coverage of the prescribers that are the highest decile and they are the biggest prescribers in oxygen therapy. Secondly, get to the right frequency. Thirdly, get to the right – to shorten the sales cycle in terms of getting a referral from them. And I'm going to add one, which is the ability to now onboard new prescribers that we've never done business with before.

Now, across the existing and the new prescribers, we are also looking at repeat business that we get from them. So I don't get one referral, I get repeat referrals from them. We are not in a position until we get to steady state in that organization despite talking about metrics, but we hope that in 2023, we'll be able to put some very specific but finite metrics that will demonstrate the progress.

I will see -- I would say that if you look at the performance on the revenue base, you realize that the strategy is working. The one thing I will add to it is we are learning and reapplying in terms of tightening our coverage and frequency plans, because the first six months were tremendous in the experience as well as the insights that we gained on top of the data-based approach that we have. So we're blending the back from the field response as well as the data that we have. We're now actually reorienting the organization to do call and frequency slightly differently and more productively. And we see that after we institutionalized that for the remainder of the year that we'll start seeing that acceleration early in 2023.

Q

Okay. Great. Thank you very much.

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**Operator:** The next question is from Margaret Kaczor of William Blair. Please proceed with your question.

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**Margaret Kaczor**

*Analyst, William Blair & Co. LLC*

Q

Hey. Good morning, everyone. Thanks for taking the question. I wanted to start maybe with guidance, especially as we look at kind of a -- initially the fourth quarter, what gets you to the high end, what gets you to the low end. And really, I'm trying to put into context a little bit how we should think about 2023? How you guys would think

about the various inputs like supply, like a potential recession or any other items because the guidance in Q4 I guess is a little wide and I just wanted to kind of get a good sense of what – how – on what and how you look at 2023? Thanks.

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**Nabil Shabshab**

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

A

Hey, Margaret. I'm going to have Kristin answer the guidance question and then I'm going to comment on 2023.

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**Kristin A. Caltrider**

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

A

Hi, Margaret. Thank you for the question. As we look into Q4, if you were to look at our Q3 results, you'll see that our B2B domestic had an extraordinary quarter as we fulfill those backlogs or the majority of our backlog in that period.

As we look back to what the normal ordering patterns were for this channel, you have to look back prior to the supply constraint timing and that began to kick in in Q4 -- late Q3 and into Q4. So, if you look at the first three quarters of last year, you'll see kind of what we see as a normal ordering pattern for that channel. And if you make that adjustment along with the seasonality that we see over the many years, Q4 tends to be a softening quarter, roughly 3% down from the prior quarter. Those two together will walk you to our estimates.

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**Nabil Shabshab**

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

A

So, Margaret, I'll make some comments on 2023. So, I think the earlier, like, opening prepared remarks around the macroeconomic conditions and the potential inflationary pressures, that's something that we're continuing to watch. We also feel that the demand remains steady moving forward. So, as we think about potential growth rates moving forward, we'll make more comments towards the end of the year when we have a little bit more visibility to the runway. But we don't expect that the growth rates will accelerate further or decelerate in general. So, we'll give you an update at the end of the year.

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**Margaret Kaczor**

*Analyst, William Blair & Co. LLC*

Q

Okay. Obviously, the growth rates are a little bit different throughout 2022. So, I mean, I hope that you're referencing maybe the full year growth that you guys saw or maybe slightly above, but we'll find out. I also wanted to touch on the demand maybe you're seeing [indiscernible] (00:33:23) in the domestic side. So, just to follow-up, how much of that backlog that you saw was in the HME channel versus online reseller? And again, looking at 2023, is this a relatively sticky business assuming it's in the HME channel, maybe you have some tailwinds there? Or is it kind of maybe a little bit more similar to DTC channel with the retailers? Thanks, guys.

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**Nabil Shabshab**

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

A

So, Margaret, let me make sure that I understand the question. You're asking if the demand in the B2B channel is sticky, right?

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**Margaret Kaczor**

*Analyst, William Blair & Co. LLC*

Q

Yeah. And the drivers of the backlog this quarter, was that online resellers or HME?

**Nabil Shabshab**

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

A

Yeah. So, let me – so the demand is across the resellers as well as the B2B customers, both in – large in size as well as the medium to small sizes. So, let me maybe talk a little bit about the stickiness of that. I think the brand itself and the demand for the Inogen POC remains very strong and is notably, I think, present in the HME channel. Also the fact that we had not remediated the backlogs and the fact that they all stayed almost intact if you look competitively. We're not going to quantify it, but the bulk of it. Most of it did not get cancelled or deferred is an indication of how sticky that business is and how strong the brand is.

Also, there is a lot of dialogue in terms of the total cost of ownership versus an acquisition cost, and this is aimed at making sure that people make the right decision in terms of when they expand their fleet and capitalize the business that they have, but making the right decision for -- in totality for profitability. And I think also back to the earlier comments, so when we addressed other questions, some of the ongoing challenges in terms of increasing costs and so on are probably making people think longer and harder about the non-delivery model versus the delivery model, which has a lot of margin compression. So, we believe that business is healthy and sticky like we – like the comments we made. We are working to look at what the normalized demand is going to be, but we are encouraged so far by the conversations we've had.

**Margaret Kaczor**

*Analyst, William Blair & Co. LLC*

Q

Thanks, guys.

**Operator:** The next question is from Matthew Mishan of KeyBanc Capital Markets. Please proceed with your question.

Q

Hi. This is actually [ph] Liz (00:35:43) on for Matt. Thanks for taking the questions. If I could just follow-up on the 2023 comments, like what would you need to see in order to provide guidance for 2023 during your next earnings?

**Nabil Shabshab**

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

A

Yes. It's relatively a simple question. What we're looking for is visibility from a supply perspective, in all honesty. So, let me take a step back and characterize how we've evolved in terms of that and how we've managed it. Like at the peak of the crisis, we used to have a week by week visibility, nothing beyond that. Then we moved to a monthly visibility. We're now around the quarter visibility, which is good, but I don't have full year visibility.

And, in our opinion, the biggest variable that will allow us to guide comfortably is the fact that we have a line of sight for the full year supply chain, so we'll make sure that we can meet the demand that is in the market and, honestly, we meet – if you look at the semiconductor industry and the outlook, I think things are going to extend into 2023.

Now, we're being very judicious and trying to forward-buy and secure part of what we need in 2023. We will not stop at securing as much as we can, but it's simple that the supply is not all available for us. So, towards the end

of the year, maybe potentially early in 2023, if that abates as potentially a risk, we will start talking about longer term guidance.

Q

Okay. And then, assuming that you have enough supply to meet demand for DTC rentals as a top priority, what do you think the right long term growth rate for the business looks like?

**Nabil Shabshab**

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

A

Yeah. We're not commenting on growth rates business by business. I think back to the prioritization of this channel, you're right, earlier in the year we prioritized that channel. It was really critical for us to meet as much of the demand that we could in DTC. Just to maybe make a comment around why things flipped around this quarter, we got to a point whereby we're balancing both strategic financial and potential business variables. So we decided to flip the balance to remediating a long standing back order in B2B. We will get back, hopefully, to balancing these channels as much as possible, but those variables ebb and flow as you can tell from what's going on in the business as well as the markets and from a competitive perspective. But we're not going to speculate since we're not guiding on any growth rates neither at the total level or at the business level.

Q

Okay. And just the last question for me. As your supply improves, do you lift your advertising? Do you increase the sales rep count? Or do you feed the B2B channels that have been more constrained over the last year?

**Nabil Shabshab**

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

A

So, if I heard the question correctly. So as we – we're always trying to optimize the performance of all the teams. So, I'm going to start with the DTC team. Of course, we tailor the advertising spend based on the supply situation also and balancing that was generating the right level of demand. We continue to be judicious in terms of how we're looking at those expenses and the acquisition costs of these patients. So, that is something that is in flight. We do it all the time. And we adjust based on the supply-demand situation. So, I think that was mainly your question. If not, give me the second part and I can answer it.

Q

No, that was good. Thank you.

**Nabil Shabshab**

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

A

Okay. Thank you.

**Operator:** The next question is from Robbie Marcus of JPMorgan. Please proceed with your question.

Q

Hi. This is actually [ph] Alan (00:39:21) on for Robbie. I kind of wanted to touch on the backlog, but maybe from a different angle. You mentioned that in the quarter the US DTC business suffered a little bit because you were prioritizing addressing the backlog in US B2B. So while – I don't want to push you on projecting that business forward. What should we think of as being the actual underlying demand of US DTC in the quarter that you would have been able to satisfy if you hadn't been prioritizing the backlog in B2B?

**Nabil Shabshab**

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

A

So the DTC – so maybe as I said earlier in I think the first question we answered, I wish we were in full supply conditions to be able to really determine if demand is softening or staying steady and stable. So short of that happening, it's very difficult for us to sit here and speculate about a funnel and the weakness because the DTC business per se have funnels that are shorter lived than the regular business. So – and then, by the way, they don't have a backlog for me to go measure easily. So it's a very difficult sort of set of variables to tease out and to isolate some of them.

Now, in general, we are not hearing from the sales organization a lot of noise around inflation or weakening demand. But I will also remind, as we said earlier on call, that we also took this opportunity by balancing the other factors and this quarter specifically and last quarter for Europe, channeling some of the volume to the B2B US, as well as European to optimize the sales organization on the [ph] DTC (00:41:02) side. We have work ahead of us in terms of driving productivity and efficiency in the sales force and we continue to use that time, call it, a little bit of a downtime to be able to complete some of the training, upgrades, the new disciplines in sales management. And we feel that that will help us continue to drive the performance in that channel as well as make sure that we combat some of the softening demand. Maybe let me also leave you with a couple of data points in terms of how we are thinking about inflation.

So we actually did a primary sort of research with our patients, both on oxygen therapy as well as potentially with COPD getting on oxygen therapy. If you look at the people that are fully employed full time, as well as business owners and/or retired, they make up between 67% and 77% of the patient population. So you can say those people have relatively either an income or they have insurance and/or they're on Social Security. As you look at what the SS – the Social Security payments are going to be as of January 2023, we all know that there's a bump of 8.7% in terms of a payout.

We feel that if there is any inflationary pressure at that time, a big chunk of the patient population that we have in our target could get some relief in terms of the dollars that are competing for other things and we feel that that is partially how we are thinking about trying to understand the pressure. I'm not removing the risk, but I think it's going to be more understandable and manageable.

Also, maybe just quickly, by way of the coverage in terms of people that are either under CMS, if you look at the total patients under CMS, both Medicare and the Medicaid, they're between 46% and 53%, but when you add private insurance, it's between 96% and 97% of the patient population that we have. So, I think data points, let's say, that what we're looking very carefully to understand what the impact is, but we feel that until we get to a steady state of supply, we cannot really isolate the softening of the demand.

Q

Got it. Thank you very much. And then, just a quick follow-on. When we think about your efforts to optimize the DTC sales force, should we think about that as basically continuing to pressure, if you will, your average sales rep number through the balance of 2022. And what should we really view as kind of a good steady state for your sales force going forward, recognizing that you are, as you said, in the process of figuring that out yourself? Thank you.

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**Nabil Shabshab**

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

A

Yeah. I think it's a good question. So when we piloted earlier some of the new disciplines that I cited earlier on the Q&A, we realize that there's – there is a lot of potential in terms of improving productivity and efficiency of our sales effort and, overall, cost of acquisition.

So, we continue to roll these out. I think the number and the zip code of 300 people is relatively where we should land, but there is continued effort to try and understand how do we drive the highest optimization of that sales force and the other factors that we have in terms of the spent for the acquisition of the patient base.

So, roughly 300, give or take, but – and, yes, you're right, we are looking for an increased productivity as evidenced by what we demonstrated through the pilots and institutionalizing and scaling the training and experience across the rest of the organization.

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**Operator:** There are no additional questions at this time. I'd like to turn the call back over to Nabil Shabshab for closing remarks.

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**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 headwinds. I'm equally pleased with the steady and incremental improvements to drive the commercial productivity, develop an innovation pipeline, and start to build our clinical evidence dossier as a part of our transformation.

Although there is work ahead of us, we have made great progress in terms of rebuilding and strengthening the fundamental capabilities while simultaneously growing revenue.

In 2023, we will be well on our way in terms of institutionalizing and scaling capabilities, processes, systems and embedding our [ph] Inogen (00:45:24) culture and all that we do to help manage current and ongoing macroeconomic headwinds and in support of accelerated and sustainable performance and the path to profitability in the long-term.

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

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**Operator:** This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.

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