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# Inogen, Inc. (INGN)

Q3 2024 Earnings Call

## CORPORATE PARTICIPANTS

**Ryan Peterson**

*Associate Director-Investor Relations, Inogen, Inc.*

**Kevin R. Smith**

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

**Michael J. Bourque**

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

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## OTHER PARTICIPANTS

**Rohin K. Patel**

*Analyst, JPMorgan Securities LLC*

**Mike Matson**

*Analyst, Needham & Co. LLC*

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Welcome to Inogen's Third Quarter 2024 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 7, 2024.

I would now like to turn the call over to Ryan Peterson, Investor Relations.

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**Ryan Peterson**

*Associate Director-Investor Relations, Inogen, Inc.*

Thank you all for participating in today's call. Joining me are President and CEO, Kevin Smith; and CFO, Mike Bourque. Earlier today, Inogen released financial results for the third quarter of 2024. This earnings release is available in the Investor Relations section of the company's website along with a 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; expectations related to our financial results for the full year 2024; progress of our strategic initiatives, including innovation; our expectations regarding the market for our products, on our business and supply; and demand for our products in both the short term and long term. The forward-looking statements in this call are based on information currently available to us as of today's date, November 7, 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 obligations to update these forward-looking statements, except as may be required by law. We have posted historical financial statements and our investor presentations 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.

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

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## Kevin R. Smith

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

Good afternoon, and thank you for joining our third quarter 2024 conference call. During today's call, I will review our third quarter performance and provide an update on our progress towards our three strategic priorities; driving top line growth, advancing our path to profitability, and expanding our innovation pipeline. I will then turn the line to Mike for a full review of our financials and outlook.

I'm pleased to share that we are making great progress against our strategic initiatives, beginning with our progress on driving top line growth. In the third quarter, we delivered on this objective by achieving \$89 million in total revenue, reflecting 6% year-over-year growth. Our performance was led by strong POC sales through our business-to-business channel, where we drove over 20% year-over-year revenue growth for the second consecutive quarter. We continued to expand our relationships with new and existing customers as patients and providers increasingly recognize the benefits that our solutions provide over other oxygen therapies and appreciate our quality, ease of servicing, and eight-year service life. In particular, we are having success taking and expanding share within the accounts of some of our largest customers.

Turning to our direct-to-consumer sales channel. We saw a year-over-year decline as we continue to operate with a downsized and streamlined sales force. Although, our revenue was down, we are pleased that this channel is becoming more profitable as a result of our cost structure and careful management. As we complete our first full year with the smaller team and move into 2025, we anticipate better year-over-year performance. DTC is a core part of our business model and we are working diligently to bring it back to growth.

As part of these efforts within the DTC business, we continue to advance our previously announced hospital and patient first pilot program. On the patient first pilot, we are still in the process of expanding the program out, but we are pleased with the effects we have seen thus far and anticipate it will be fully rolled out in the first half of 2025. Our hospital pilot is still being evaluated for effectiveness and we will share updates as they become available. These programs, along with a host of other improvements we have made to the organization's structure and strategy, or a large part of our efforts to reposition Inogen for a long-term, sustainable and profitable growth.

Before I move on to talk about our next strategic priorities, I would like to highlight the recent addition of Eric Pauls to our team as Vice President of North American Sales. Eric joined us in early September and we are excited for the two-plus decades of experience he brings to our sales force. In addition to his years of experience, Eric brings a number of strong relationships from his years of leadership in the respiratory field. And as part of our efforts to reduce friction between our business channels and scale overall growth, Eric is now managing both the rental and domestic business-to-business channels, marking a change from our prior sales structure in which separate leaders manage our business-to-business, direct-to-consumer and rental channels. We believe this change will improve alignment across our business and ensure that we are directing every customer and patient to the right resources for sales to be completed successfully.

I will now discuss our progress on our second strategic priority, to reach sustained profitability. During the quarter, we generated \$3 million of positive cash flow, strengthening our already resilient balance sheet. This marks our second consecutive quarter of positive cash flow, a testament to our team's focus on ensuring every dollar spent is being allocated to position Inogen for growth. We also achieved a second consecutive quarter of adjusted EBITDA profitability. While we still expect to end the second half of 2024 with an adjusted EBITDA loss, this is proof that our strategy, portfolio and team can achieve long-term profitability.

Part of our efforts to achieve this long-term profitability have been through our initiatives to improve gross margin. These include, second sourcing our raw materials to ensure we are reducing costs. Production streamlining and implementing even more rigorous quality control to minimize defects and product returns. Programs like these are just one part of our strategy, but we are seeing the benefits paying off and continue to expect to see this going into next year.

On the topic of operating expenses, we have continued to see rising advertising cost due to the excess demand for TV spots in advance of the election. As a result, we have reduced some campaigns that were not returning value to the organization. This decision is emblematic of our efforts to evaluate the return on every dollar invested in the business.

Finally, I would like to share updates on our innovation pipeline. We recently announced the launch of the Rove 4, our newest POC. Weighing less than 3 pounds, the Rove 4 delivers power and performance in the lightest weight and highest oxygen output for setting POC in the market. Alongside these with new features, including up to 840 milliliters of medical-grade oxygen per minute and up to 5 hours and 45 minutes of battery life. These innovations advance our mission to deliver the highest quality of life possible for patients, allowing them to remain ambulatory for as long as possible while undergoing oxygen therapy.

With respect to Simeox, we continue to have very productive discussions with the FDA and as we've stated before, we'll provide a formal update upon clearance. We remain committed to investing in innovation to drive growth in our business and expand our ability to serve patients with respiratory conditions around the world, as well as our business customers. We are making significant progress against our strategic priorities and are taking meaningful step towards profitability, in addition to introducing another leading POC to the market and expanding the capabilities and network of our sales team.

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

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## Michael J. Bourque

*Executive Vice President & 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 third quarter of 2024 was \$88.8 million, an increase of 5.8% compared to the prior year. The increase was primarily driven by higher domestic and international business-to-business sales, partially offset by lower direct-to-consumer sales and rental revenue. For the third quarter, foreign exchange had a negative 20 basis points impact on total revenue and a negative 70 basis points impact on international revenue.

Looking at third quarter, revenue on a more detail basis, direct-to-consumer sales decreased 23.2% to \$19.2 million from \$25.1 million in the prior period as we continue to operate with a smaller and more efficient team. As Kevin mentioned, we look forward to completing our first full year with this team in place and positioning the DTC business for better performance into the years ahead. Domestic business-to-business revenue increased 35.1%

to \$23.4 million, versus \$17.3 million in the comparable period, driven by increased demand from new customers and resellers.

International business-to-business revenue increased 26.2% to \$32.3 million, compared to \$25.6 million in the prior period, primarily driven by increased demand with new and existing customers. Rental revenue decreased 13.1% to \$13.9 million from \$16 million in the prior year period, primarily driven by continued lower average billing rates due to the mix shift to private payers.

Now, I want to discuss our gross margins. Total gross margin was 46.5%, increasing 630 basis points from the same period in the prior year, primarily driven by lower premiums paid for raw material components, partially offset by sales channel mix. As shared on our second quarter call, we expect gross margins to be in the low to mid-40s in the second half of the year. Sales revenue gross margin was 47.2%, an increase of 1,000 basis points, driven primarily by a reduction in premium price components, partially offset by the continued mix shift towards business-to-business sales. Rental revenue gross margin was 43.2%, a decline of 990 basis points, driven by continued mix shift towards private payer reimbursement, lower net revenue per rental patient and higher service cost.

Moving on operating expense. In the third quarter, total operating expense decreased to \$49.1 million, compared to \$80.5 million in the prior period, representing a decrease of 39%. Third quarter 2023 results included one-time impairment charges of \$32.9 million. When excluding the impact of this charge, total operating expenses of \$49.1 million increased 3.2% from \$47.6 million. This increase was primarily related to increased personnel related expenses and higher advertising costs.

In the third quarter of 2024, we reported a GAAP net loss of \$6 million compared to a loss of \$45.7 million in the third quarter of 2023, and a loss per diluted share of \$0.25 versus a loss of \$1.97 in the third quarter of 2023. On an adjusted basis, we had a net loss of \$2.6 million compared to a loss of \$8.5 million in the comparable period, and an adjusted loss per diluted share of \$0.11 compared to a loss of \$0.36 in the third quarter of 2023. Adjusted EBITDA was a positive \$0.5 million in the third quarter of 2024 compared to a loss of \$5.5 million in the prior year period.

Moving on to our balance sheet. As of September 30, 2024, we had cash, cash equivalents, marketable securities and restricted cash of \$124.3 million with no debt outstanding. As Kevin mentioned, this marks the second consecutive quarter of cash generation as we continue to diligently manage and strengthen our balance sheet.

Before turning the line back to Kevin, I would like to share an update to our revenue expectations for the full year 2024. Based on our progress in this quarter and the available outlook today, we are raising our full year 2024 revenue expectations to be within \$329 million to \$331 million, reflecting approximately 45% year-over-year growth. In addition, for the back half of the year, we continue to expect gross margins in the low to mid-40s and an overall adjusted EBITDA loss.

And with that, I'll pass the call back to Kevin for closing remarks.

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## Kevin R. Smith

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

In a week from now, I will have had the privilege of being the CEO of Inogen for a year. And while we have just recently cemented our leadership team in place, I am thrilled with the progress we have made thus far. There is much work to be done, but our team is performing at a high level and I'm very optimistic towards the end of 2024 and 2025 holds in store for Inogen.

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

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. We will now conduct a Q&A session. [Operator Instructions] Thank you. Our first question comes from line of Robbie Marcus with JPMorgan. Please proceed.

**Rohin K. Patel**

*Analyst, JPMorgan Securities LLC*

Q

Hi. This is actually Rohin, on for Robbie. Thanks for taking our question. Just maybe starting with DTC. I was hoping you could give a little bit more color on the sales force and specifically, just around the size and productivity heading into 2025? Just want to -- and also kind of going off of that, just want to understand what the strategy is given the downsized salesforce to get the business back to growth potentially next year and beyond?

**Kevin R. Smith**

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

A

Thanks, Rohin. I'll start with that. This is Kevin. Appreciate the question. The -- when we look at the size of the sales force on a year-over-year basis, we are down which I -- which is, yeah, as planned as we talked about in some of the previous calls. We are looking at increased productivity per rep compared to some of the recent historic levels and that's a positive. We start to see that trend up. And as we're looking outward on the DTC, remember, that's one where we have focused on the patient first initiative as well as making sure that we're rightsizing and evaluating how we're spending our advertising dollars to continue to build that up.

So, this has been a rebase year for DTC. We've been through that third quarter in the middle of that rebase. And so, we have positive outlooks for this going forward, but we won't be getting into that, that full rollout of the patient first program until we hit until the first half of next year.

**Rohin K. Patel**

*Analyst, JPMorgan Securities LLC*

Q

Got it. And it was also nice to see some top line momentum in the quarter as well as another quarter of positive free cash flow. So just wanted to ask about your expectations for both the top and bottom line into 2025 and specifically just around cash flow generation from here. Do you think this is something that's probably more sustainable here on out, and what are some of the puts and takes?

**Michael J. Bourque**

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

A

Hi, Rohin. This is Mike. Yeah, in terms of cash generation, clearly, we're really happy with the fact that we have the second consecutive quarter of positive cash generation. I think a lot of this really kind of gets back to as -- as Kevin talked about executing on our strategic initiatives, looking at that top line growth, path to profitability, the innovation pipeline. But getting to those first two, I guess, really, it's -- we've been talking about investing in the business wisely, smart, at the same time diligently managing our P&L maturing with generating profitable growth, high gross margins.

Kevin also talked about some of the things we're doing on the cost of goods sold reduction initiatives, some of the things that we're looking at there. And really just getting back to what we said about managing a cost structure and CapEx. Always looking at ways to manage our working capital, improve cash flow. In terms of – if you're looking at kind of forward-looking, we're not guiding to where we expect our cash to be. But what I can say is, if you're looking at kind of where are we from a perspective of quarter-over-quarter, we're going into Q4, which is typically a seasonally impacted.

Particularly in DTC, we're expecting to see and we've talked about that, a little bit more of an impact of general – more difficulty in generating some leads as a result of some of the advertising expense – experience that we're seeing and expectancy.

So, I guess, if you look at that and you look at the positive EBIT of the two quarters, positive cash for two quarters, looking at our two strongest quarters, which are typically Q2 and Q3. So again, we'll continue to focus in on making sure we're investing money into the business, doing it in a smart way, controlling our cost structure, managing OpEx, managing CapEx.

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**Rohin K. Patel**

*Analyst, JPMorgan Securities LLC*

Q

Great. Thank you.

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**Operator:** Thank you. Our next question comes from line of Mike Matson with Needham. Please proceed.

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**Mike Matson**

*Analyst, Needham & Co. LLC*

Q

Yeah. Thanks. So, I guess, just following up on the commentary around the DTC rep head count. So I guess, just trying to figure out when that would sort of stabilize. So in other words like, what quarter will be where you're lapping the year-over-year the change in that head count is basically flat, like how far out is that from the third quarter you just reported?

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**Kevin R. Smith**

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

A

Yeah. So as we look where we are on the third quarter and going forward, we feel like we've got a pretty good handle on the rep count and what it takes to be profitable from that standpoint. This channel we are seeing improved productivity, as I mentioned, we're seeing improved profitability coming from the channel. And the number of reps that we have in there right now, we feel pretty good, as I was saying about that. So on a year-on-year basis, you'll still see us going into the beginning of next year, probably being a little bit under where we started, but getting into the back – the middle part of next year where we see it continue to be steady.

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**Mike Matson**

*Analyst, Needham & Co. LLC*

Q

Okay. Got it. All right. And then, just on Simeox, I wanted to see if you could clarify what you said. Because I thought you said something that you're talking [ph] about (00:21:46) FDA and you will provide update upon clearance. So, my interpretation is that and this might be wrong, but would be that you've submitted something for clearance and clearance, but using the word clearance implies a 510(k) I think, but I don't know, am I understand that correctly or am I missing something?

**Kevin R. Smith**

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

A

Yeah. In – generally speaking there, what – certainly, we've been asked a lot about the timing on Simeox. And so, what we've been doing is given the indication and the sharing that we've had positive interactions with the FDA. We have not yet illustrated any further what the nature of that is, and we haven't confirmed that we filed with the FDA. But I said in some of, I think, on our previous call that we are going to be providing an update once we do have that regulatory pathway completed. In other words, if the FDA has given us clearance. But, Mike, [indiscernible] (00:22:49) we've talked also about the financial statements and how that kind of points to that positive outlook.

**Michael J. Bourque**

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

A

Yes, Kevin. So, I can add just a little bit of that. I think, folks understand that, we do have an earn-out agreement with the Physio-Assist acquisition. We disclosed information of 10-Q. So if you kind of get – trying to get the general idea in terms of how things are going, that earn-out is maxed to \$13 million we continue to accrue. We're at about \$11.9 million through Q3. So, I guess, all I could say would be that, when you see the accrual continuing to increase, it just means we're progressing. But as Kevin said, we'll talk more about that when we actually get the clearance. But I think that gives an indication of kind of how we're moving forward with this.

**Mike Matson**

*Analyst, Needham & Co. LLC*

Q

Okay. All right. And then just, I guess, Rove 4, I mean, it seems like a great product based on the fact. So, I mean, how is that being received across the different channels? Is that something that's more – it seems like that's more geared probably to DTC side than the B2B side, but let me know if that's wrong?

**Kevin R. Smith**

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

A

No. That's – yeah, that's pretty spot on there. And it's sort of – so the Rove 4, we do see that being an influential piece of our business as we're going forward. But that will be more of a 2025 versus 2024 since we just launched it. But as you said, the play for that will be, in the US market, it will be more interesting in the DTC side. So if you think about that, we're able [ph] to capture (00:24:31) patients earlier in their disease state, take them on that first product, that first in the Rove series, the Rove 4, for a little bit longer since it has an additional setting and its characteristics versus the G4.

So there's an opportunity there also as we initiate patient's treatment with the Rove 4, that if they do well, they live long, but their disease progresses, then we could upgrade them in the future to the Rove 6. So that's a – that we believe is an interesting play for us. On the B2B side, it would be more in the international than it would be for the domestic B2B business. Because in the B2B side, the HMEs, they tend to want to get a patient on one POC and have them stay in that POC for longer period of time and reduces their investment. But the international markets have a little bit of a different view on that.

**Mike Matson**

*Analyst, Needham & Co. LLC*

Q

Okay. Thank you.



**Operator:** Thank you. There are no further questions at this time. I'd like to conclude the call. Thank you, everyone, for your participation. You may now disconnect your lines.

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