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Q4 2022 Inspire Medical Systems Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 07, 2023 / 10:00PM GMT

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PRESENTATION

Operator

Good afternoon, my name is Josh, and I'll be your conference operator today. At this time, I would like to welcome everyone to the Inspire Medical Systems Fourth Quarter and Full Year 2022 Conference Call. (Operator Instructions)

I'll now hand the call over to your first speaker, Ezgi Yagci, the Vice President of Investor Relations at Inspire. You may begin the conference.

Ezgi Yagci

Thank you, Josh, and thank you all for participating in today's call. Joining me are Tim Herbert, President and Chief Executive Officer; and Rick Buchholz, Chief Financial Officer. Earlier today, we released financial results for the three and twelve months ended December 31, 2022. A copy of the press release is available on our website.

On this call, management will make forward-looking statements within the meaning of the federal securities laws. All forward-looking statements, including, without limitation, those relating to our operations, financial results and financial condition, investments in our business, continued effects of the COVID-19 pandemic, full year 2023 financial and operational outlook and improvements in market access are based upon our current estimates and various assumptions. These statements involve material risks and uncertainties that could cause actual results or events to materially differ. Accordingly, you should not place undue reliance on these statements.

Please see our filings with the Securities and Exchange Commission, including our annual report on Form 10-K to be filed with the SEC by February 14 for a description of these risks and uncertainties. Inspire disclaims any intention or obligation, except as required by law, to update or revise any financial projections or forward-looking statements, whether because of new information, future events or otherwise. This conference call contains time-sensitive information and speaks only as of the live broadcast today, February 7, 2023.

With that, it is my pleasure to turn the call over to Tim Herbert. Tim?

Timothy P. Herbert *Inspire Medical Systems, Inc. - CEO, President & Director*

Thank you, Ezgi, and thanks, everyone, for joining our business update call for the fourth quarter and full year 2022. We are excited to report our first profitable quarter and a solid finish to a very strong year with significant progress across all elements of our business. As always, we first and foremost reiterate our commitment to patient outcomes and to ensure that each patient has the best possible experience with Inspire therapy.

During today's call, we will highlight many accomplishments from 2022, that demonstrate our ongoing focus on the patients, including improvements in access to therapy, technology advancements and planned activities to broaden the population that can benefit from Inspire. We will also discuss our outlook for full year 2023. We completed many important milestones in 2022, and there are now over

36,000 patients who have received Inspire therapy.

During the year, we received FDA approval of full-body MRI compatibility and launched our silicon-based stimulation and sensing leads along with the Bluetooth-enabled patient remote. Further, we made significant progress with our digital platform, including major updates to the Inspire SleepSync (TM) Patient Management system and the Inspire Sleep app. We also initiated a pilot of a digital scheduling tool, which we believe will significantly enhance patient access to care through our Adviser Care program. In addition, we submitted important indication expansions to the FDA, including for the pediatric population with Down Syndrome and for patients with a high apnea-hypopnea index.

We raised over \$240 million in cash, as noted previously, and in the fourth quarter, we achieved profitability for the first time, all of which gives us confidence as we enter 2023.

With that, let's review our results. In the fourth quarter, we generated revenue of \$137.9 million, representing a 76% increase compared to the fourth quarter of 2021. For the full year of 2022, revenue totaled \$407.9 million, a 75% increase compared to full year 2021. Our growth continues to be driven by higher utilization at existing centers and supported by the activation of new centers.

During the fourth quarter, we experienced challenges with our supply chain as the demand for the silicon-based sensing and stimulation lead outpaced our ability to provide products due to issues with scaling the production lines. These challenges have been resolved and we are increasing our inventory levels. Despite these challenges, we were successful in providing product for all scheduled procedures in the fourth quarter.

Historically, we have experienced seasonality in the first quarter due to the reset of high deductible health plans at the start of the year. While this remains the case, the first quarter of 2023 may see slightly less seasonality due to the supply chain issues in the fourth quarter. With that said, we expect full year revenue to be in the range of \$560 million to \$570 million, a 37% to 40% increase compared to 2022.

In the fourth quarter, we continued to increase our capacity by adding 61 new implanting centers, ending the year with a total of 905 centers. At the end of the fourth quarter, ambulatory surgical centers made up 23% of U.S. centers. And in 2023, we expect to continue to activate 52 to 56 centers per quarter.

Regarding the U.S. sales team, we created 16 new sales territories in the fourth quarter, bringing our total to 225 territories. We are increasing our guidance in 2023 and expect to add 12 to 14 sales territories per quarter compared to 10 to 12 per quarter in 2022.

In 2023, we will continue to scale our sales management and training teams to optimize our ongoing expansion and to focus on strong patient outcomes and standard productivity. As such, we modified our incentive compensation for the field organization to focus on higher utilization at existing centers. We will continue to enhance our ability to connect interested patients with a qualified health care provider. Our outreach programs are very effective in generating interest in Inspire therapy, primarily through the inspiresleep.com website.

For the full year 2022, the number of visitors to our website surpassed 13 million, an increase of 86% year-over-year. And from these visits, we had over 78,000 physician contacts. Of note, these physician contacts represent the calls and e-mails to Advisor Care Program or directly to a physician's office and do not include referrals directly from a patient's health care provider. From a U.S. reimbursement perspective, the final rules for 2023 were published in November and came in generally as expected, providing a stable reimbursement outlook for health care providers.

Moving on, our international business continues to make strides, growing 28% in the fourth quarter over the prior year, despite ongoing headwinds from unfavorable exchange rates. During the quarter, international revenue was less than 3% of global revenue, highlighting the significant growth in the U.S. market.

There were many positives in our international business during the fourth quarter, including the strong performance in Germany, and

Netherlands and Switzerland. Furthermore, following many years of working with the French authorities, we are in the final process to have Inspire listed on the French registry in early 2023 at reimbursement rates consistent with the rest of the world, and the team's continues preparations for a commercial launch there. In Singapore, our flagship programs continue to perform at productivity levels consistent with the U.S. centers. We also see momentum in Japan with multiple centers during first procedures in the fourth quarter that have also completed or booked additional cases in the first quarter. In Hong Kong, we expect to complete our first procedures in February, and in Australia, we have resubmitted for reimbursement and should have a determination later this year.

Turning to R&D, we recently submitted our SleepSync (TM) Physician Programmer for FDA review. This new programmer connects with our next-generation SleepSync (TM) Digital Health platform, which is a key step for providing remote patient programming.

Longer-term, we continue to work on the design of our fifth generation Inspire neurostimulator. The Inspire V device will eliminate the pressure sensing need and incorporate the sensor inside the neurostimulator using an accelerometer to measure respiration. We have finalized the design and we are conducting operational and production qualification. We are still targeting FDA approval in late 2023, but depending upon the FDA review cycle, this could move into early 2024.

Finally, we continue to conduct research and clinical trials to increase the number of patients who can benefit from Inspire therapy. In the fourth quarter, we finished enrolling the first 300 patients in our PREDICTOR study, which is the first step to replacing the requirement for drug-induced sleep endoscopy procedure with an office-based measurement for patients with a BMI less than 32, and continue our plan for an initial readout of the data in 2023.

In summary, we are experiencing significant momentum in all aspects of our business. We remain focused on patient outcomes and physician education to continue the adoption of our therapy. In 2023 and beyond, we will continue to increase utilization at our existing centers, while adding capacity by opening and training new centers. The ongoing expansion of our call center and investment in our DTC campaign support these initiatives, and we are seeing enhanced productivity from these efforts, which is driving our improved financial performance.

Finally, the many R&D achievements in 2022 highlight our commitment to improving patient outcomes and enhancing both the patients and health care providers experience with Inspire therapy. We remain extremely excited about our future prospects and are confident that we have the appropriate strategy in place to drive long-term stakeholder value.

With that, I'd like to turn the call over to Rick for his review of our financials.

Richard J. Buchholz *Inspire Medical Systems, Inc.* - CFO

Thank you, Tim, and good afternoon, everyone. Total revenue for the fourth quarter was \$137.9 million, a 76% increase from the \$78.4 million generated in the fourth quarter of 2021. U.S. revenue in the fourth quarter was \$134.3 million, an increase of 78% from the \$75.6 million in the prior year period. The growth in the U.S. reflects several factors, including, higher utilization at existing centers, the addition of new implanting centers, expanded direct-to-consumer marketing and a higher number of territory managers.

Revenue outside the U.S. increased to \$3.6 million, which is a 28% increase year-over-year on a reported basis, while units sold outside the U.S. grew 43% year-over-year.

The U.S. average selling price in the fourth quarter was \$24,900 compared to \$23,900 in the prior year period. The increase reflects our price uplift that began in May of 2022. We expect U.S. ASP to remain steady at the current level. The ASP outside the U.S. was \$20,400 during the quarter, compared to \$22,700 in the fourth quarter of 2021, which was driven by unfavorable exchange rates and a lower ASP for distributor sales in Asia.

Gross margin in the fourth quarter was 83.9%, compared to 85.8% in the prior year period, primarily due to higher costs of certain component parts and additional costs associated with the transition to our new silicone-based leads, partially offset by the price increase that began in the second quarter.

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Total operating expenses for the fourth quarter were \$116.1 million, an increase of 68% as compared to \$69.1 million in the fourth quarter of 2021. This planned increase was due to the expansion of our sales organization, increased direct-to-consumer marketing programs, continued product development efforts and general corporate costs.

The increase in operating expenses is reflective of our ongoing plan to drive continued long-term growth and to make investments in key areas of our business. Interest and dividend income totaled \$3.4 million in the fourth quarter compared to \$15,000 in the prior year period. This higher income was driven by higher interest rates on our increased cash balances. We had no interest expense in the fourth quarter, having paid off our outstanding debt in the third quarter of 2022.

We are proud to announce our first profitable quarter in the history of Inspire. Net income for the fourth quarter was \$3.2 million compared to a \$2.4 million net loss in the prior year period. The diluted net income per share for the fourth quarter was \$0.10, compared to the net loss per share of \$0.09 in the fourth quarter of 2021.

The weighted average number of diluted shares outstanding for the fourth quarter was \$28.9 million. We expect Q1 weighted average shares outstanding to be approximately \$29.1 million.

During the fourth quarter, we generated \$24 million in cash, and we ended the year with cash and investments totaling \$451 million. The strong cash position allows us to remain focused on executing our growth strategy of increasing procedure volumes at existing centers while training and opening new implanting centers. For the full year 2022, revenue totaled \$407.9 million or a 75% increase over \$233.4 million. U.S. revenue was \$394.8 million or 79% year-over-year growth, while revenue outside the U.S. totaled \$13 million, a 5% year-over-year growth despite foreign currency headwinds. Net loss for the full year 2022 was totaled \$44.9 million, compared to \$42 million in 2021 with the net loss per share of \$1.60 for 2022, compared to \$1.54 in the prior year.

Moving on to 2023 guidance. We expect full year revenue to be in the range of \$560 million to \$570 million, a 37% to 40% increase compared to 2022. Full year gross margin is expected to be in the range of 83% to 85%. As Tim previously noted, we expect to activate 52 to 56 new centers per quarter and establish 12 to 14 new sales territories per quarter in 2023. Given the prevalence of high deductible health plans, we have historically seen seasonality in our business.

As Tim previously mentioned, we continue to expect revenue to step down sequentially in the first quarter of 2023 and will then increase throughout the year. In conclusion, our strong performance and business momentum provide us with confidence in our outlook as we enter 2023.

With that, our prepared remarks are concluded. Josh, you may now open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Travis Steed with Bank of America.

Travis Lee Steed *BofA Securities, Research Division - MD*

Congrats on the profitability this quarter. And I think in the past, you said once you turn profitable, you wanted to stay profitable. So I don't know if this is the start of that, because looking at the Street has over \$2 in loss for earnings next year. Should that be closer to flat to slightly positive?

Timothy P. Herbert *Inspire Medical Systems, Inc. - CEO, President & Director*

Yes, let me comment. Hi, Travis. Let me comment first, and then Rick can jump in. I think as we know, we wanted to get to profitability, we know how important it is from a business standpoint. I think moving forward, it will continue to be a desire of the organization. But we also know that in Q1, we do see seasonality there. So let me hand off to Rick there.

Richard J. Buchholz *Inspire Medical Systems, Inc. - CFO*

Yes. So we did demonstrate some improved leverage in Q4. And we also expect in Q1 that we would lose some leverage just due to our normal revenue seasonality. But we do intend to show improving operating leverage as we progress throughout the year. We're not changing our tone on profitability, we're going to continue to run our playbook. But it is important to understand that we do have a very disciplined approach in determining our spending and our investments across our business.

Travis Lee Steed *BofA Securities, Research Division - MD*

Okay. That's good color. And so for OpEx, so something maybe in the 30% range, is that a good starting point? And I'm curious if you would hold that if revenues come in higher than expected for the year or if you would also kind of grow OpEx upside with revenue upside over the course of the year. And then the other follow-up was on the comment on Inspire V. You mentioned, I think, moved into early 2024. I don't know if there was a change or something that drove that comment or if it was just more of a caveat?

Richard J. Buchholz *Inspire Medical Systems, Inc. - CFO*

I'll start Travis. So we did demonstrate that the revenue did outpace operating expenses in the fourth quarter. We're not going to guide on bottom line, which means also operating expenses at this time. And so we're going to continue to make thoughtful, disciplined investments, but we're really focused on driving that top line.

Timothy P. Herbert *Inspire Medical Systems, Inc. - CEO, President & Director*

As far as the Inspire V, I think we continue with the program, the design is frozen, we are going through the operational testing, we're building up the quality units, and we're building redundancies. We have multiple manufacturers for that product, again, to protect for supply chain. So always a little bit of a challenge to work, discuss or to get all the testings done and get the submission done. But we're still going to be pushing really hard to get the approval by the end of 2023. But we can see a slide into early 2024 if the cycle is tight.

Operator

Next question comes from Robbie Marcus with JPMorgan.

Robert Justin Marcus *JPMorgan Chase & Co, Research Division - Analyst*

Congrats on a really nice quarter. Maybe starting with the guide, you're coming off a really good growth year. Your guidance in terms of growth is still a really healthy rate for 2023, but a pretty significant decline in growth rate versus 2022. And by my math, it kind of looks like center utilization might be flat to down in the implied guide for 2023. So anything other than your usual conservatism here that we should be thinking about implied in the guidance as we start the year?

Timothy P. Herbert *Inspire Medical Systems, Inc. - CEO, President & Director*

Yes, we want to be very consistent on how we put our guidance out there, how we look at the business at the beginning of the year. We already mentioned in the note that we want to continue to drive utilization to actually improve utilization at existing centers, in fact, to the point of putting additional incentives in there for the sales team. So again, yes, we want to be careful point and guide off early on. We like the position the company is in and really have been strong across the board with all of our milestones.

Robert Justin Marcus *JPMorgan Chase & Co, Research Division - Analyst*

Got it. And then while not a huge part of sales today, the international constant currency growth number in fourth quarter was really impressive and a big step up from third quarter, it looked like. How should we think about the cadence of international throughout 2023? And can this be starting to become a material contributor?

Timothy P. Herbert *Inspire Medical Systems, Inc. - CEO, President & Director*

Robbie, I think we're very excited about international and we know it's just days away before getting confirmation from the French authorities that we will be listed on the registry as an accepted product, fully reimbursed in France, and we're recruiting a country manager there. So we think France is going to have a good year. We think Belgium will follow that, as well as the Netherlands is set up to have a strong year in 2023. And Germany on top of that, even the U.K. has started doing cases too. So we like what's happening in Europe and the other side, Singapore, Hong Kong will be doing the first case in just a few weeks, and Japan is really starting to uptick a little bit.

So I think it's going to be a measured success with the growth in international, but the key thing is still hovering around the 3% mark as far as global revenue, and we're not going to take our foot off the pedal on the United States. We want to continue to grow utilization and really focus on the U.S. market as well. So while I think you'll see continued growth internationally, our emphasis continues to be on the U.S. market.

Operator

Our next question comes from Adam Maeder with Piper Sandler.

Adam Carl Maeder Piper Sandler & Co., Research Division - VP & Senior Research Analyst

Rick, I hope you can hear me okay, and congratulations on the nice finish to the year. Maybe just to start, I wanted to ask about direct-to-consumer expense and realize there's no guidance on OpEx. But can you just remind us kind of where 2022 DTC spend came in? And how investors should think about spend in 2023, and then just longer-term kind of direction where this could go?

Richard J. Buchholz Inspire Medical Systems, Inc. - CFO

Sure. Adam, it's Rick. So we continue to make investments in DTC because it's very important for our pipeline. We talked about over 13 million visits to our website and 78,000 physician contacts. And so it's a very important part of our business. In the fourth quarter, our DTC spend was about \$21 million. That's relatively flat over the third quarter, but we're going to continue to increase that year-over-year. In 2022, we spent \$74 million in 2022, and that was up about 55% over '21, where we spent \$48 million. We're going to continue to make those investments and grow our investments in DTC. But that growth will slow. It will be less than 55%, but we're not giving specific guidance around what that might be right now.

Adam Carl Maeder Piper Sandler & Co., Research Division - VP & Senior Research Analyst

Okay. Understood. And then just for the follow-up, you guys gave helpful color and guidance on new account adds. I'm curious if you are able to share some color on implanting physicians per account. Are there metrics you can share there? And how do you think about those trends going forward? There's clearly a lot of demand for your products. So wondering how you think about the importance of not just growing the account base, but also the number of docs at existing centers?

Timothy P. Herbert Inspire Medical Systems, Inc. - CEO, President & Director

Yes, absolutely. Great to hear from you. It continues to be a focus, and it's one of the fastest ways to be able to increase capacity at an existing center is to add a surgeon. And so we'll continue with a focus on it. We don't have specific metrics here, but it is one of the key methods to work with centers to either grab additional OR time for the existing surgeons, but to also just train their partners to be able to have additional OR time, because the demand certainly is there. So we'll continue to look forward and try to provide some more specifics on that, but it is certainly a key factor for our field team to be able to grow capacity.

Operator

Our next question comes from Rich Newitter with Truist.

Richard Samuel Newitter Truist Securities, Inc., Research Division - Research Analyst

Congrats on another really great quarter, a solid finish to the year. I wanted to maybe just start off on the 1Q seasonality comments in the context of the kind of the 4Q impact you called out on supply issues and maybe some deferral into the 1Q. Typically, you see, I think, in the last few years about a 10% or low-teens percentage decline 4Q to 1Q. It sounds like you're suggesting that might be a little bit less than normal. So, is that correct that the 10% or less of a sequential decline or less than historical is a good way to think about it? Can you quantify what you think that supply push out procedure demand push out might have been?

Timothy P. Herbert Inspire Medical Systems, Inc. - CEO, President & Director

Yes, let's go back and talk a little bit about what we're talking about first. The first thing I mean is we've always kind of talked about like a 12% seasonality as we moved into Q1. But when we're talking about with the stimulation leads, we -- remember, in the third quarter when we transitioned from the polyurethane production lines to the silicone production line, we built up a safety stock polyurethane, then we had to stop and purge to get them back up and running. And we did that, but we have to be able to get up to volume. And in the process of scaling is when we were into some of the challenges.

So we went to more of a just-in-time delivery to support cases and would be holding some part level of orders or things like that. But we were able to fulfill and closely track with scheduled procedures to make sure that we have all those products ready to go. And for cases that get scheduled in January and part of the just-in-time system, some of those may chip in, in January. So probably not a big number, but certainly wanted to bring awareness to that in that the seasonality still exists. But with the supply chain challenges, it might offset that a little bit, but, just to make everybody aware of that. But the good news is the inventories are growing, and the production lines are scaling up.

Richard Samuel Newitter *Truist Securities, Inc., Research Division - Research Analyst*

Okay. That's helpful. Got it. So it sounds pretty minor. Your normal seasonality is probably a good way to think about it. And then just on the account opportunity, I think you're right under 1,000 centers right now in planting centers. You've talked in the past about -- I know it's very high level, but I think something in the -- to the tune of order of magnitude of 4,000 accounts in the U.S. that you could theoretically get. And I think you've also said there's 4,000 ASCs out there. Can you maybe just refresh our memory on kind of how you see that 1,000 installed base progressing towards some account opportunity? And what is the right account opportunity?

Timothy P. Herbert *Inspire Medical Systems, Inc. - CEO, President & Director*

Yes, good question. So yes, when we just have 4,000, and 4,000 got to a total of 8,000. And then we just assumed about 1/3 of those centers would have a capability or would be doing Inspire, and that put our target market at 2,400. And I think over the last couple of quarters, we've been spending more time evaluating that, because we've been recognizing in smaller communities, physicians are setting up centers that don't require patients to take long drives into more of the larger city centers.

So I think we're going to continue to evaluate that. I think the number of centers that we can move to will far exceed the 2,400. And we've already demonstrated in some towns in Idaho, Montana even in that -- Jackson, Wyoming, that there are very productive accounts in these smaller communities, and we can really leverage the community doctors to be able to offer Inspire and have more community-based care. So I think that story continues to evolve, and we will continue to increase the number of centers capable of treating the patients with Inspire.

Operator

Our next question comes from Larry Biegelsen with Wells Fargo.

Lawrence H. Biegelsen *Wells Fargo Securities, LLC, Research Division - Senior Medical Device Equity Research Analyst*

Tim and Rick and Ezgi. I wanted to ask on the guidance and the new indications and label changes. But Tim, do you -- what are you assuming for the timing down, AHI, BMI? And any impact that you're assuming in the guidance?

Timothy P. Herbert *Inspire Medical Systems, Inc. - CEO, President & Director*

Got it. I think the -- we're very optimistic with the pediatric population with Down Syndrome. I think that we've been working closely with the FDA to answer questions that they have, they've come and done audit on the clinical data. So we know that they're progressing in their review as well. And so we're optimistic that, that should happen in the first half of the year, which I think is really exciting. As far as the high AHI and the warrants for BMI. I think that also is progressing, we're working with the FDA again in a little bit earlier stage, so that will take a little bit longer to be able to get that approval.

But certainly confident that, that's coming through and it does have the proper designation to help accelerate the review at the FDA. So we expect both of those in the near future and should have impact on the business. And we did try to kind of build that into the guide that we put forward. I think in both of those populations, there will be a little bit of a slow uptick as we get awareness out there, and to be able to incorporate that into the existing practices. The good news is, a lot of the pediatric hospitals or the children's hospitals are affiliated with some of the larger institutions that already do Inspire today. So we already have an Inspire presence.

So hopefully, that will streamline our ability to get those centers up and running on the pediatric front. So more to come on that. We're very excited about that population. It's near and dear to our heart, and we're working with the societies and the parent, the family groups to be able to build awareness of that.

Lawrence H. Biegelsen Wells Fargo Securities, LLC, Research Division - Senior Medical Device Equity Research Analyst

Just one follow-up on Pediatric Down. Why do you think the uptake will be low there? They're relatively well-organized community, if you will. I think the clinical need seems pretty high here. You've been working on this for a while. So why do you expect the uptake in that population to be slow?

Timothy P. Herbert Inspire Medical Systems, Inc. - CEO, President & Director

I think, we've been working on it for years, and you've seen the clinical studies and the enrollment of those studies, and it is still a relatively small number of patients have received Inspire in that pediatric group. I think it's just a new therapy and a new option for the families and the doctors to be able to understand. So I think this is going to be an educational process like any new indication or like any new therapy or introducing Inspire into any new country. There's just always a little bit of a slow adoption curve as people learn about the therapy and become comfortable with it and increase the prescription of the therapy.

Operator

Our next question comes from Jon Block with Stifel.

Jonathan David Block Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst

Rick, maybe first one for you. Do you have an EBITDA for the fourth quarter, I'm counting around \$15 million. I just don't have the cash flow statement. So maybe just your thoughts on -- around \$15 million. And if so, I believe you guys would be EBITDA positive for full year 2022, maybe just provide your thoughts on how that would look or trend for full year 2023?

Richard J. Buchholz Inspire Medical Systems, Inc. - CFO

Yes. So stock-based compensation was about \$15 million. So in rough terms, Jon, we're about [\$15 million] (corrected by company after the call) roughly in EBITDA positive for the fourth quarter. And so that stock-based compensation expense has increased. Again, that will increase. We're also going to continue to make investments along our all facets of our business, R&D, sales and marketing and so on. And so with that, we expect that we'll lose leverage in the first quarter with our seasonality, but then gain that back as we progress throughout the year. But again, we're not providing any guidance on OpEx or bottom line at this time.

Jonathan David Block Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst

No. I got it. But I guess, maybe just as a follow-up to that. If you were EBITDA positive for full year 2022, which you just confirmed and you expect leverage not for 1Q, but over the course of 2023, we can just sort of draw our own conclusions from there. Is that a fair statement?

Richard J. Buchholz Inspire Medical Systems, Inc. - CFO

That's fair.

Jonathan David Block Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst

Okay. Perfect. And then can you just talk to us, if you don't mind, on the ASCs a little bit. I think it came in again 23%, is that representative as a percent of the overall procedures? And maybe more importantly, how do you see this playing out and evolving over time? I think initially, you were excited about those potentially being higher utilization settings. The reimbursements improve there. You've got a good number or percentage of commercial payers. Could you talk to us on how that can act as an overall driver for utilization for Inspire longer-term?

Timothy P. Herbert Inspire Medical Systems, Inc. - CEO, President & Director

I think we continue to be excited about it. I think this phase will be a little bit more of a post-COVID phenomenon, where the hospitals are really active again. And so while we're still at 23%, we're still growing the number of ASCs, but we're growing the number of hospitals as well, and that's not too surprising. I do think the utilization impact that we're seeing is part of the factor of the ASCs. I think right now, we're running maybe 20% of our procedures are done in ASCs, even though ASCs make up 23% of the centers, what that means is they're taking more of their fair share of the procedure. So that's really good to see the utilization growing in both of it, but particularly in ASCs.

As we continue to progress, I think we'll continue to look for further sites of service. But as we know, the reimbursement in hospitals continues to be very, very strong, and our ability to garner or time to take care of the patient continues to grow, that is evidenced by the increased utilization across the model. So we're not taking our focus off ASCs, but we continue to leverage all the hospitals that want to participate with Inspire as well.

Operator

Our next question comes from Mike Polark with Wolfe Research.

Michael K. Polark Wolfe Research, LLC - Director & Senior Analyst

First topic, the comment on modifying incentive compensation for your field force to focus on higher utilization at existing centers. I guess, can you level set is this a notable change? Is it a subtle change? What did the framework look like before? What does it look like now? And I guess why make this change for 2023?

Timothy P. Herbert Inspire Medical Systems, Inc. - CEO, President & Director

Absolutely. Well, first off, it's an important part of the compensation for the field, especially the territory managers. But the management team shares in the same compensation structure. So they're all very consistent. We have different groups of people. We have the area of business managers, as you know, that focus on opening new centers and the territory managers that are responsible for cultivating the existing centers to increase utilization. In the past, we used to compensate more -- everybody gets their base comp. And of course, they get the commissions based on implants and revenue and units sold, but we have added components.

In past years, it was based on what we call patient expecting therapy or more around patients in the prior authorization process. But as we continue to mature, it's important that we shift that from individual patient count to more utilization at sites. So we've kind of switched over the parameters starting this year to really focus more on the utilization side. So I think we just presented it at the national sales meeting just a week ago, and the team is very excited about the progress that they made last year, as well as the prospects moving forward.

Michael K. Polark Wolfe Research, LLC - Director & Senior Analyst

My second one, if I may, the leverage-related question. You report SG&A and consolidated line, I don't see a breakout in filings or the like of S&M versus G&A. I'm just curious if -- that's kind of the leverage that you're seeing in the model, is there a variance worth calling out as to how your G&A spend is getting leveraged versus S&M? Just if you could frame up like where G&A is as a portion of total? And is that getting materially better versus S&M? Or are they about trending the same? Any color there would be great.

Richard J. Buchholz Inspire Medical Systems, Inc. - CFO

Mike, it's Rick. So we have demonstrated leverage across all those line items, R&D, G&A and sales and marketing as over the fourth quarter and throughout the year in 2022, again, we're going to lose that in Q1 with seasonality. But even R&D, we're continuing to make investments. R&D was 19% of revenue in the third quarter, that was 15% in the fourth quarter. G&A is in that 10% to 12% range. And we expect to continue to be in that ballpark in that range going forward. So (inaudible)

Operator

Our next question comes from Christopher Pasquale with Nephron Research.

Christopher Thomas Pasquale Nephron Research LLC - Partner & Senior Research Analyst

I wanted to follow-up on the question about the shift in incentive comp. The guidance for this year implies you add about as many sites in 2023 as you did in 2022. Just wanted to see how you square that with where you're incentivizing your team to spend their time. Maybe we're reading too much into that comment, but it seems like that could mean fewer center adds this year?

Timothy P. Herbert Inspire Medical Systems, Inc. - CEO, President & Director

Well, I think we left the guide consistent from 2022 to 2023, because we still have our training team and the area of business managers to be able to focus on adding new centers, and we're going to continue with that. We also previously talked about how our growth has really been driven predominantly by increased utilization, same-store sales versus the contribution from new centers. And I think what we're kind of highlighting is, we're going to continue down that pathway. And we want to keep focusing on growing utilization, because

centers that are able to do more procedures, they get better outcomes, they're more proficient in the procedure, they're proficient on managing their patients, they're better at patient flow, they're better at submitting the proper course to get proper reimbursement.

So centers that have high utilization are just so much more efficient and have higher patient outcomes. So we're going to continue with that trend and continue having territory managers, ideally manage less centers that are doing higher utilization.

Christopher Thomas Pasquale *Nephron Research LLC - Partner & Senior Research Analyst*

Okay. That makes sense. And then 78,000 physician contacts driven by your DTC effort is very impressive. You treated about 16,000 patients last year. So one out of every five people who raise their hand are actually getting an implant. Where are the stumbling blocks today that are causing patients to fall out of that funnel? And can you talk a little bit more about the digital scheduling tool you mentioned and whether that's part of the solution for trying to improve that yield?

Timothy P. Herbert *Inspire Medical Systems, Inc. - CEO, President & Director*

Right. When we talk about the physician contacts, there's another sense in there that talks about patients getting direct referrals from their own health care providers, that's not part of that number. And so there's always a little bit of specificity on where exactly the patients come from. And is it truly one and five from the Advisor Care Program. But how many patients see the ad, they'll go to the website, they'll be educated, but rather than going through the Advisor Care Program, they will contact their own health care provider or their own physician saying, what do you think about Inspire, will this work for me? And they actually will become a direct physician referral and them not coming through from the Advisor Care Program. So that's really an important part of the business as well. So we have to continue to educate physician.

On the other side, we need to continue to improve the efficiency of the Advisor Care Program. And we do have a pilot out there right now to be able to log directly into the scheduling at physicians' office. So when the Advisor Care Program talks to a potential patient, determines that, the patient is a good candidate that they can directly schedule them. So we have a handful of sites up and active, and we're really looking to further expand that program earlier in the year.

Operator

Our next question comes from Matthew Mishan with KeyBanc.

Matthew Ian Mishan *KeyBanc Capital Markets Inc., Research Division - VP & Senior Equity Research Analyst*

Yes. So I think this might be a little bit early to ask, but I think investors are encouraged about the improvements with the Inspire V once that gets through approval. Do you think as it gets closer like some physicians will wait for it to be approved where it might actually delay some implants?

Timothy P. Herbert *Inspire Medical Systems, Inc. - CEO, President & Director*

Great question. I don't think so. We see this in the past with new remote with Bluetooth, with going to silicone leads, going to Inspire IV from the Inspire II. Now that's back in 2018, but we just don't see that slow down. Once we have the patient flow and the patient gets scheduled will just stay on the pathway. Inspire IV going to V, while it puts the sensing inside the can, it doesn't have a dramatic impact such as like when we go to future generations with auto-titration. So we don't expect to see any kind of slowdown, and we know the demand continues to be strong.

Matthew Ian Mishan *KeyBanc Capital Markets Inc., Research Division - VP & Senior Equity Research Analyst*

Okay. Excellent. And then a follow-up, just the PREDICTOR study with an initial readout in 2023. I think you mentioned that in the industry presentation earlier this year, there was some data published from another study. Can you comment on like what that showed and why that would be encouraging for the readout for PREDICTOR?

Timothy P. Herbert *Inspire Medical Systems, Inc. - CEO, President & Director*

Yes, absolutely. So we finished the first 300 in 2022. At the same time, Dr. Weiner is a physician in Arizona, give him a shout out, because his paper was published several weeks ago with the first 100 patients. And we're getting the data now from the first 300, right now, it's in the quality stage, meaning that we get physician overread of the data for quality control, so we're right in that process. But we

also noted that there were patients with a higher BMI above 32. So we actually are entertaining the opportunity to continue that study and actually increase to maybe add another 300 patients go to 600 being able to widen the number of patients that we can treat with that.

So a very active program. We're in the process of getting the quality control on the first 300. And we're looking to just continue enrolling patients because the data is -- we like what we see and we think that we might be able to treat even a higher BMI population. So you'll expect us to say now we're going to 600 patients soon.

Operator

(Operator Instructions) Our next question comes from Suraj Kalia with Oppenheimer.

Suraj Kalia Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst

Tim, Rick, can you hear me all right?

Timothy P. Herbert Inspire Medical Systems, Inc. - CEO, President & Director

Yes, Suraj.

Suraj Kalia Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst

Congrats on a nice finish to the year. So Tim, forgive me, maybe I missed the new store same-store metrics provided. If I could ask specifically the 225 or so sites added last year, how many implants did they do for the whole year?

Timothy P. Herbert Inspire Medical Systems, Inc. - CEO, President & Director

I got what you're asking. We don't have that specific number in front of us. But remember how we do new sites. And a new site is anybody who has opened up during the year. So any site that we opened in the fourth quarter, obviously, they were only able to do their first cases, correct. So they do one or two cases in November, December. Anybody who opened up January 1, 2022, is still in the same bucket of a new center, and they have the opportunity to reorder, right, and do additional patients through the year.

So some of those can be productive accounts by the time they get to the end of 2022. So it's kind of the way that we establish centers and we establish them per year. So yes, I don't really have the exact number of what percent of the cases were from the class of 2022.

Suraj Kalia Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst

Tim, how do you define account turnover.

Timothy P. Herbert Inspire Medical Systems, Inc. - CEO, President & Director

First is to find account, an account is a purchasing unit, right? That would be a hospital that orders product from us. That's what we call a center, a center can have several different accounts per se. So there may be catch-up back down to who's on the website, right? We don't have one center on the website. We could have multiple centers on there, right? The sleep practices could be on the website along with the implanting surgeon website. So turnover, we don't have a whole lot of center turnover, those are purchasing units. But sometimes they'll go on hold if there is certain moves. But go ahead.

Suraj Kalia Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst

I guess, Tim, what I was really getting, just trying to get my arms around, you'll have 905 sites exiting FY22. Great. But does 905 really imply that onboarding was, I don't know, pick a number, 1,100 and then some bled out for the various reasons that you have mentioned on calls in the past, they didn't do implants, you'll kick them out of the list and all that. And then we all exited at 905. So just kind of trying to understand what the turnover is so to speak.

Timothy P. Herbert Inspire Medical Systems, Inc. - CEO, President & Director

Very low. Very, very low. And I don't think in the fourth quarter, we really closed any sites. So what you see is additive, and 905 is the active number of centers. And during COVID, we reported, I think once we close 15 sites, another time we closed like 12. By the way, some of those sites have a surgeon to move back in our back-end process. So we have very, very low turnover of a site once they become active. Now we want to continue to work with that site to be able to increase utilization, it doesn't mean a site if they're not productive or if they

have too much of a backlog or patients that they're scheduling out too late, we will remove them from the website. But the website and enacted center are two independent functions.

Operator

Thank you. This concludes the Q&A session for the conference. I'd now like to turn the call back to Tim for any closing remarks.

Timothy P. Herbert *Inspire Medical Systems, Inc. - CEO, President & Director*

Thank you, Josh, and thanks all for joining the call today. As always, I'm grateful to the growing team of dedicated Inspire employees for their enthusiasm, hard work and continued motivation to achieve successful and consistent patient outcomes. The Inspire team's commitment to patient remains unmatched and is the most important element to our success.

I wish to thank all of our employees as well as the health care teams for their continued efforts as we remain focused on further expanding our business in the U.S., Europe and in Asia. All of you on the call, we appreciate your continued interest and support of Inspire and look forward to providing you with further updates in the months ahead. Please stay safe and healthy.

Operator

Thank you. This concludes today's conference call. You may now disconnect.

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