



Inspire Medical Systems, Inc.

Second Quarter 2020 Earnings Conference Call

August 4, 2020

C O R P O R A T E P A R T I C I P A N T S

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P R E S E N T A T I O N

Operator

Greetings, and welcome to Inspire Medical Systems, Inc. Second Quarter 2020 Conference Call.

At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. If anyone should require Operator assistance during the conference, please press star, zero on your telephone keypad. As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Mr. Paul Arndt, Managing Director of LifeSci Advisors. Please go ahead, sir.

Paul Arndt

Thank you, Operator, and thank you all for participating in today's call.

Joining me today are Tim Herbert, President and Chief Executive Officer, and Rick Buchholz, Chief Financial Officer.

Earlier today, Inspire released financial results for the three and six months ended June 30, 2020. A copy of the press release is available on the Company's website.

I'd like to remind you that, on this call, Management will make forward-looking statements within the meaning of the Federal Securities Laws. All forward-looking statements including, without limitation, operations, financial results, and financial condition, investments in our business, continued effects of the COVID-19 pandemic, full-year 2020 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. See our filings with the Securities and Exchange Commission, including our Quarterly Report on Form 10-Q, filed with the SEC today, 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, Tuesday, August 4, 2020.

With that, I'll now turn the call over to Tim Herbert. Tim?

Tim Herbert

Thank you, Paul, and thanks everyone for joining the call today for our second quarter of 2020 business update.

I'd like to begin by emphasizing how very proud I am of the Inspire team, and how they stuck together through all of the challenges experienced in the second quarter, resulting in a strong close. More importantly, we are now in a very strong position to continue the ramp in the second half of the year.

As expected, the impact of the COVID-19 global health pandemic was felt throughout the second quarter, with the postponement of a significant number of implant procedures in both the U.S. and in Europe. Even with these delayed cases, for the second quarter, our worldwide revenue was \$12.2 million, which was a decrease of 32% as compared to the second quarter of 2019.

We realize that COVID will be with us for some time, but our recent experiences have shown that healthcare providers have adapted and identified safe methods to continue to treat patients. In fact, with the recent surge in COVID cases, we have had only a few centers suspend Inspire procedures. As such, implant activity has significantly increased over the last couple of months.

To put this in perspective, at the end of April, only 2% of our centers were conducting implant procedures. At the end of May, this number increased to 24%. By the end of June, 51% of our centers were conducting implants. While the data is early, it suggests more than 60% have implanted in July, and we are working with all centers to get them scheduling cases. We do know the great majority of centers are conducting office business once again.

This encouraging trend provides us with confidence in the outlook for our business for the remainder of the year. Therefore, we are now able to provide new, full-year 2020 revenue guidance of between \$88 million and \$92 million. Of course, as you know, the operating environment for surgical procedures continues to evolve as COVID persists, and even spiked in some regions, so while we are confident in our guidance, we will continue to monitor the impact of the pandemic. Rick will get into specifics later, but we are also reiterating our guidance on gross margins, as well as the key operating metrics of opening new centers and territories.

Let's discuss what's driving our positive outlook for the business. At the core is the quick ramp of centers performing Inspire implants, as well as many patients in the process of receiving Inspire therapy. During the pandemic period, the team remained focused and very active with healthcare providers to ensure that facilities and patients were prepared once cases were able to be scheduled. We previously discussed how we are concentrating on four distinct patient groups.

The first group are those patients whose cases had to be postponed due to COVID, and we are achieving excellent success in rescheduling these procedures. The second group of patients had completed their work-ups and obtained insurance approval, but were not able to schedule their implant. Again, we are now successfully scheduling these cases.

The third group of patients were unable to complete their final assessment required for insurance prior authorization, which is the drug-induced sleep endoscopy. As you recall, all sleep endoscopy procedures were also postponed. The positive news is that all centers performing Inspire implants are also performing the sleep endoscopy procedures, and therefore continuing to build their practices.

The final group of patients are those new to Inspire therapy, and whose initial contact with their healthcare providers was through newly-adopted virtual tools such as Community Health Talks on Zoom or Microsoft Teams, and their initial requirements were using telemedicine. The key focus of the Inspire team was to ensure that once we started implanting at centers, that the ramp could continue without facing any gap or slowdown of procedures due to not appropriately building the pipeline during the pandemic.

What we are experiencing is that our patients are clearly committed to addressing their obstructed sleep apnea. They have been through a sleep study; tried, but are unable to benefit from CPAP; taken the time to learn about Inspire therapy; worked with their physician to ensure they are a good candidate; obtained insurance approval, and are now committed to moving ahead with the Inspire procedure.

As we review some of the key initiatives from the second quarter, what was most critical for us was to stay active in educating new patients. Creating this awareness was largely due to the direct-to-consumer activities we continued during the quarter. With stay-at-home orders in place, we initially limited spending on radio, and focused more on digital communication, including Google ads and Facebook.

We leveraged a revised television campaign, focusing on our smaller markets that were not as significantly impacted by the pandemic. During the latter half of the second quarter, we resumed radio and TV initiatives in our larger market as the impact of COVID lessened in those areas. We are also utilizing our website and virtual tools to help patients connect with physicians, and in many cases, through the use of telemedicine.

In the first half of 2020, the number of visitors to our website was 2.6 million, which is a robust increase of 45% year-over-year. In addition, over 28,000 physician contacts were established via the website, representing an increase of 47% year-over-year.

Moreover, in order to increase the percentage of patients reaching out to healthcare providers, resulting in an Inspire implant, we continued to expand our call center concept, called the Inspire Advisory Care Program. As we have said before previously, the primary purpose of the Advisory Care Program is to assist

patients in connecting with the appropriate healthcare provider based on their specific needs, which in turn should improve our overall conversion rate. We have seen positive results from the Advisor Care Program to-date, so we expanded it to include 77 centers, and expect to continue expanding the program throughout the year.

We also recently launched the Inspire Sleep app, which, in combination with our Inspire Cloud, is the basis of our digital patient management system. This system will continuously be enhanced, and the first version of the app allows patients to learn about Inspire therapy, and connects them with an Inspire-trained physician.

This past week, we launched the second version of the app, which interacts with Inspire Cloud and enables the collection of clinical data such as patient quality of life and satisfaction questionnaires. It is clear that the patient interest in Inspire therapy remains high, even during this COVID period.

Beyond this, hospitals and physicians have lost significant revenues due to the pandemic and are motivated to schedule patients and get implants moving again. The good news here is that Inspire therapy is considered a high margin procedure for hospitals due to the reimbursement levels for the outpatient procedure.

As we previously discussed, the national average Medicare payment increased to \$29,000 at the beginning of 2020, and commercial reimbursement is approximately 1.4 times the Medicare payment. The proposed 2021 outpatient payments were released today, with a proposed increase of \$850 to this total, if approved, which should be released in October.

Moreover, as I said on our last call, the average payment to surgeons for an Inspire implant increased by about \$450, following the finalization of the Medicare policies for Local Coverage Determinations, or LCDs. This increase is for the work to implant (inaudible), which is the add-on code, 0466T, and previously did not carry any payment. The average Medicare reimbursement for the base code of 64568 was approximately \$600 to \$800, and therefore, this increase of \$450 is significant for the surgeons. The proposed 2021 rule reduces the base code surgeon payment by just \$48, if approved.

Let's stay with market access, or reimbursement. Where we continue to execute on our two key strategies, which are to expand the number of positive written coverage policies, and concurrent with this process, continue to obtain individual prior authorizations.

First, the major accomplishment in the second quarter was the significant progress we achieved with Medicare. I am pleased to report that all seven of the Medicare Administrative Contractors, or MACs, have now issued and implemented their final LCDs, and Inspire has 100% Medicare coverage in all 50 states. There are approximately 40 million Medicare patients and an additional 20 million lives under commercially-sponsored Medicare plans, known as Medicare Advantage.

The inclusion criteria in the LCDs are very consistent across the U.S., and provide some impactful changes such as increasing the BMI limit from 32 up to 35. In addition, we currently have 56 positive policies from commercial healthcare plans, representing approximately 182 million covered lives. As a point of reference, we had approximately 125 million covered lives at this time last year. We continue to expect that our momentum with these positive coverage policies will continue throughout 2020. The most recent positive coverage decision was received from Cigna, which provides health insurance coverage for approximately 16 million members in the U.S.

In the second quarter, our internal Reimbursement team supported 566 prior authorization submissions. This compared to 735 submissions in the second quarter of 2019, and 929 submissions in the first quarter of this year. When the sleep endoscopy procedures were suspended back in March, this slowed the number

of patients able to submit for an insurance pre-approval. As we mentioned, these patients are again scheduling their endoscopies, and we have already experienced an uptick in prior authorization submissions.

The news regarding prior authorization approvals is also positive. The approval rate has dramatically increased due to the large number of commercial insurance policies. In fact, 541 patients received an approval in the second quarter, which represents a modest 7% decrease compared to the 579 approvals in the second quarter of 2019. Along with the increased approval rate, the median time for an insurance approval is now down to approximately 11 days, from 25 days in 2019. Given our improved reimbursement environment, these metrics will likely become less meaningful in evaluating the overall progress of our business going forward, and as we've previously stated, we do not intend to continue to report on them after this year.

In the second quarter, we added 16 new U.S. implanting centers. The number of new centers was limited, as we were not able to schedule implant procedures, and therefore have several sites that will start in the second half of the year. Further, during the pandemic period, we took the time to retrain all implanting centers and review the current state of these centers. The process resulted in the deactivation of 15 centers for reasons such as surgeons relocating, as well as where the location no longer has an active and effective team to manage an Inspire therapy program. Even though this is a relatively small number of centers, we believe this action allows our sales, marketing, and clinical teams to focus their efforts on centers that will have attractive returns for our business.

Therefore, with 16 new centers and 15 deactivated centers, we ended the period with a total of 328 centers in the U.S. We will continue to identify new centers, including ambulatory surgical centers, or ASCs, and focus on training and contracting at these centers. As a reminder, recruiting additional ASCs will remain a focus moving forward, as Inspire is an outpatient procedure, and as I said earlier, their reimbursement within ASCs has improved.

Moving on, we created 9 new territories during the quarter, which brings our total to 91 territories in the U.S. Importantly, we did not slow our cadence of hiring territory managers to ensure we are in a strong position once cases are able to resume. These new centers and territories will have beneficial impacts on our long-term growth, and will drive continued growth and therapy adoption.

Regarding our international activity, patient flow was steady in Europe, and continued to improve throughout the second quarter, similar to the U.S., and specifically in Germany and the Netherlands. We expect that the number of scheduled cases in Europe will continue to increase throughout the remainder of the year.

In Japan, we are driving towards a reimbursement decision and remain actively engaged with the authorities there. We continue to meet with the Ministry of Labor, Health and Welfare to finalize the documentation process, and expect to have a reimbursement decision in Japan this year, and have planned for a limited commercial launch in 2021.

We also continue to achieve progress with regulatory authorities in Australia. We expect to receive regulatory approval in that country in 2021, and are working to obtain reimbursement concurrently.

In the second quarter, the FDA approved an expanded age range for Inspire therapy to include 18 to 21 year old patients. Several commercial payers have already revised their policies to reflect this pediatric indication, and we expect that others will follow suit throughout 2020. We will continue conducting additional research on the specific characteristics of OSA and the pediatric population, including our ongoing clinical study for adolescents with Down's Syndrome.

Switching gears again; similar to the first quarter, our R&D expenses increased year-over-year in the second quarter, as we continue to invest in enhancing our technology platform. The Inspire Cloud project, our cloud-based patient management system, continues to progress with the addition of many centers in the U.S. and in Europe who are using the tool. As I noted earlier, we recently launched the Inspire app on patient's smartphones as an educational tool, and the second version released this week interfaces with the Inspire Cloud.

These are just the first steps in establishing interconnectivity between the patient and their healthcare provider with a long-term plan to improve outcomes by tracking patient activity and adherence, and monitoring for any issues with device use. We also have active projects to improve the physician programmer and the patient remote control. Longer-term, the design activity for our fifth generation Inspire neural stimulator continues.

As I have said previously, we anticipate that this will be a multiyear effort to develop the Inspire 5 device and obtain regulatory approval. We are actively conducting feasibility trials with several technology innovations, which will make the Inspire 5 neural stimulator state-of-the-art, and expect that it will further improve the performance of the system, including simplifying the implant procedure.

In summary, we are aggressively focused on continuing to advance our business, implant activity is increasing, and we are well-positioned to assist patients as they progress on their Inspire therapy journey. We remain focused on improving utilization and our conversion rate, achieving further advancements in reimbursement that build upon our recent positive coverage decisions, growing the body of clinical evidence in support of Inspire therapy, and the continued development of our robust R&D platform. We are extremely excited about our future prospects and are confident that we continue to be well-positioned to long-term success.

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

Rick Buchholz

Thanks, Tim.

As Tim noted, despite the ongoing COVID pandemic and its impact on our second quarter financial results, we are excited about the outlook of our business for the remainder of 2020 and beyond. Focusing on the results for the second quarter of 2020, total revenues were \$12.2 million, a 32% decrease from the \$18 million generated in the second quarter of 2019. U.S. revenue in the second quarter was \$11 million, a decrease of 30% from the \$15.8 million in the prior-year period. In the second quarter, European revenue decreased 47% to \$1.2 million.

Our U.S. average selling price in the second quarter was \$23,800, which was consistent with the prior-year period. The European ASP was \$22,200 during the quarter, as compared to \$21,900 in the second quarter of 2019. Our gross margin in the second quarter was 84%, compared to 82.8% in the prior-year period. This modest improvement was primarily due to manufacturing efficiencies, which led to cost reductions with our third-party contractors.

Despite the ongoing COVID pandemic, we have not experienced a disruption in our supply chain, and we maintain sufficient levels of inventory.

Total operating expenses for the second quarter were \$33 million, an increase of 43% as compared to \$23.1 million in the second quarter of 2019. This increase is primarily due to the expansion of the U.S. and European sales organizations, as well as increased direct-to-patient marketing programs, continued product development efforts, and general corporate costs.

The operating expenses of \$33 million in the second quarter were sequentially down by \$1.5 million, from \$34.5 million in the first quarter of 2020. In light of the ongoing uncertainties, we continued to take a thoughtful approach to our spending, but expect operating expenses to increase as we return to growth and remain focused on investing in our commercial and development initiative.

Our net loss for the second quarter was \$23.1 million, compared to \$7.7 million in the second quarter of 2019. The diluted net loss per share for the second quarter of 2020 was \$0.88 per share, compared to \$0.32 per share in the same period last year. The decrease in revenue in the second quarter, due to the pandemic, negatively impacted the net loss in the second quarter, despite our improved gross margin.

Importantly, we continue to operate from a position of financial strength. We completed a successful equity financing in April, which generated \$124.7 million of net proceeds. We have a strong balance sheet which enables us to execute our growth strategy, which is primarily focused on the U.S. market, and with the objective of first increasing patient flow at existing centers, and second, training and opening new implanting centers.

As of June 30, 2020, our cash and investments totaled \$242.6 million. The weighted average number of shares outstanding for the second quarter was \$26.3 million. We anticipate that the weighted average number of shares for the third quarter will be approximately \$26.8 million.

As Tim mentioned, while we are not yet operating in a normal, pre-COVID healthcare environment, implant activity has increased over the last several weeks. With that said, we are providing new, full-year 2020 revenue guidance of between \$88 million and \$92 million, which represents 7% to 12% growth from full-year 2019.

We continue to expect full-year 2020 gross margin guidance between 82% and 84%. Furthermore, we reiterate our guidance to open 20 to 24 new centers per quarter, and add 6 to 7 new territories per quarter. Our guidance is based on our current outlook; however, the operating environment for surgical procedures continues to evolve as the pandemic persists, and this could have an impact on our ability to achieve these projections.

In summary, despite the impact of COVID on our business, we are confident that we are well-positioned for sustained success. With our strong balance sheet, we are aggressively executing our growth strategy and enhancing our business.

With that, our prepared remarks are concluded. Jerry, could you please open up the call for questions?

Operator

Thank you. At this time, we will be conducting a question-and-answer session. If you'd like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate that your question is in the queue. You may press star, two if you'd like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star key. One moment, please, while we poll for questions.

The first question is from Amit Hazan, Goldman Sachs. Please go ahead, sir.

Amit Hazan

Oh, thanks, and hey, good afternoon.

Let's actually start with the guidance, and see if we can get you to comment a little bit about how you're seeing the sequential cadence and whether, if we kind of take a linear approach to this, it looks like we'd get something like maybe flattish growth in the third quarter and then up to even 25%+ range in the fourth quarter. If you agree with that; is that the right way to think about the guidance?

Then, it'd be really helpful if you talk to your confidence in that skew, in the fourth quarter in particular, and what you're seeing in either backlog or new patient generation, as you talk through generally, that gives you the confidence that this is the right range?

Tim Herbert

Great, Amit, thank you very much.

As you saw from the numbers, bi-monthly, the number of centers that are becoming active, jumping up from 25% to 52% up to 60% in July, we continue to see that ramping. It is a combination of working through the backlog of existing patients that had to have their cases postponed. But as we mentioned, we really worked hard to make sure we built practices in the pipeline, so we didn't have what we're calling an air gap or a lag, once we started to ramp those procedures.

I think the way you're describing guidance is directionally correct. We want to continue to keep getting closer to normal in Q3, and really be able to help a lot of people when we get into the fourth quarter. I think that we have good confidence in the guidance, and directionally, in the way that you're describing that as well. It's going to be a process to work through Q3 into Q4.

Amit Hazan

I guess as my follow-up, maybe focused on the South, just as kind of a learning experience for you as we see infections rise in many of these Southern states where you're active, and what you're learning from that. It's obviously very different than what we saw in March, April.

Tim Herbert

Yes.

Amit Hazan

But are you confident in what you're seeing and the ability of these facilities to continue procedures? Just would love to get color on that specific region where we're seeing infections at high levels today.

Tim Herbert

Absolutely. Well, I had the honor of spending time with each of our Regional Managers and area Vice Presidents at the end of every quarter to kind of get a good feel as to where they are with their region and what confidence they have. Specifically, we've met with Texas and Arizona and Florida. Florida is one of the areas that is postponing cases, particularly in Miami, and starting up the Eastern Coast.

But we're continuing implants in Orlando and Jacksonville, but we're monitoring that closely. South Carolina has a challenge in that one region right there, that they're seeing some challenges there, and a couple centers in Houston. But other than that, we've been leaning forward and being creative and finding alternative ways for our patients to get their devices, including, as we've talked earlier, about opening up ASCs and being able to go to the ASCs that are owned by a lot of these same hospitals.

We're monitoring that closely, but we think it's pretty limited at this time. We're watching those patients too, and we'll get them scheduled back in those centers as soon as possible.

Amit Hazan

Great. Thanks so much.

Operator

The next question is from Bob Hopkins with Bank of America. Please go ahead, sir.

Robert Hopkins

Great. Thank you and good afternoon. Thanks for the detail.

Just a quick question on the guidance again, for the back half; could you give us a sense as to what percentage of the back half comes from already identified and backlog procedures, or scheduled procedures versus new demand that you anticipate over the rest of the year? Do you have any sense for that?

Tim Herbert

It'd be just a rough estimate, but it all started when you and I talked about months ago, and we started talking about the four buckets, and we call them groups of patients here. To make sure that we just didn't work through the backlog, and also we didn't have enough patients to be able to continue going forward, that's why we continued the direct-to-consumer and a lot of the television going forward, to bring patients to the website.

I think what we're experiencing in June is really working through a great majority of the past cases, and that'll carry a little bit into Q3. But I think when you get into the second half of the third quarter and most of the fourth quarter, you're going to be into the second, third, and more importantly, into the fourth group of patients. We're now relying on the patients that had their cases postponed; we want to be able to get them scheduled quickly and be able to get them their implant as soon as possible.

Did I indirectly answer your question?

Robert Hopkins

Yes, no, that's helpful. I mean, I know those are hard numbers to come by, but just wondering, again, how much is visible versus new business you need to win. Maybe one other way of providing confidence is, any chance you could provide revenue for July, just so we can sort of see where you are as of July? I normally wouldn't ask, but it's unique circumstances. Thank you.

Tim Herbert

No, I don't have it in front of me, but I mean, I can say that—you saw the number of centers going up, increased to 60%, and we're able to get good OR time with our physicians. We're confident that we're going to have a good July and a good Q3, and really focus on not stopping there. We continue to ramp all the way through Q4, as I was talking about with how we look at the guidance for the rest of the year.

Robert Hopkins

Okay. Then just one other quick follow-up on those 15 centers; I assume those were a tiny percentage of revenues, but just was curious for a little more color there, whether that was you guys giving up on them or them quitting their procedures. Again, I assume it's not a big deal and a very small percentage of the total, but just curious of any additional color there, and then I'll drop. Thank you.

Tim Herbert

Yes, absolutely. During the pandemic period, we routinely retrained our centers, because we have updated implant procedures, updating procedures on programming, patient selection. Then when we push that training out to centers, we can do that virtually, and the centers and the physicians actually sign off on that. How we started that whole process, we look for centers that really haven't done implants over the last year and we said, okay, let's look at this. How much time are we spending at those centers—and they're great people, they take care of patients; we appreciate that. But if they're not really active and they don't have the support team to be able to support an Inspire program, we went back and talked to the territory managers and talked to the centers, and determined that now is not the right time for them.

To your point, yes, those 15 centers weren't really contributing implants and revenue anyways, but now we have to clean it up, so the territory managers don't waste mind share or even time with those centers, and we can drive those patients to the active and effective centers.

Robert Hopkins

Great. Thank you.

Tim Herbert

Thanks, Bob.

Operator

We have a question from Richard Newitter, SVB Leerink. Please go ahead, sir.

Jamie Morgan

Hey, Tim. It's Jamie on for Rich. A quick question; I want to just start, just back to the guidance. I think you had said in your prepared remarks that, in the areas where there are some recent surges, some centers have limited their procedures. I guess, following the line of questioning on guidance, to what degree is the potential for centers limiting cases baked into the \$88 million to \$92 million? Then I'll have a follow-up.

Tim Herbert

I think we account for that in that \$88 million to \$92 million. We know that several of those centers aren't able to schedule cases today, but they're not waiting too long. We don't expect it's going to be a long period of time before we can help those patients and help them get scheduled to get their procedure. As I mentioned, in Texas, we're trying to move several of those cases to ASCs. What I didn't mention is Arizona was another hotspot, and California, and we're not seeing any slowdown there.

We are confident in the guidance that we gave you, and we're going to find solutions to be able to work through that, we think.

Jamie Morgan

Got it, okay. Then you mentioned ASC, so that was kind of a nice lead-in to my next question. Appreciating that ASC is still a pretty small percentage of your business, could you just maybe give us a sense or remind us what the percentage of your business is today, and then kind of how you expect that to potentially evolve over the second half and into '21, with COVID potentially being an incremental tailwind on top of the improved reimbursement?

Tim Herbert

Yes, I think it's probably still less than 10% of our business today as we even start up. When we start looking at new centers in the third quarter, I think you'll see an uptick in ASCs. I think the reimbursement has gotten a little bit stronger. The new proposed rules today also increased the average Medicare payment for ASCs for 2021, so there's a little bit more incentive for the ASCs to be able to get started.

I think it's relatively small today, but it'll have more of an importance going in through the year, and then really when you start getting into '21 and beyond, that's when you're going to see more of a percent of our business and percent of our implants being driven and conducted in ASCs, and not necessarily because of the COVID pandemic. I think it's a natural step for an outpatient procedure like ours, if you take the spinal cord stimulator, take the nerve stimulator technologies; maybe half to two-thirds of those cases are performed in ASCs. It's just an efficient way to be able to treat patients. I think now that reimbursement has been, for the most part, locked in, it's a natural progression to move to ASCs.

Jamie Morgan

Thanks for taking my questions.

Tim Herbert

Thank you.

Operator

We have a question from Chris Pasquale, Guggenheim. Please go ahead, sir.

Christopher Pasquale

Thanks. Tim, the overall trends are certainly encouraging, but honestly, I'm a little surprised that 40% of your customer base still hasn't come back online at this point. On the one hand, that's good, because it means those that have are quite productive. But do you have a sense for why the sites that are still down haven't come back? Are they prioritizing other types of patients first, or is there an issue with sleep centers in those regions? Would just love any thoughts you had there.

Tim Herbert

Yes, first off, the number we gave you is active implants; those are implants that have been performed. I think that there's a greater percentage that have implants scheduled.

As an example, the VAs are still shut down. VAs have not started yet, and it's going to take a little bit of time to get them going, although that's a small, probably 5% of our business.

I think it's going to continue to grow, because I think the number of procedures that are actually—the number of centers that are conducting hospice visits is very high. Those that are doing telemedicine are high, those treating (phon) patients. I think sleep studies are increasing significantly, although a lot of those are being done with home sleep testing.

Yes, I guess on one hand, it is a limited number of that percent of centers that have already performed an implant. I'd say the greater number have them scheduled, and that's why we have confidence in leaning forward, that that number is going to grow quickly.

Christopher Pasquale

Okay. Then can you share some early data on the impact the call center's having on your conversion rate? In the places we have had it for a little while, what have you seen there?

Tim Herbert

Well, early on, we started that call center on the first week of March in New York and Houston, of all places. That's right when the pandemic hit, so it pretty much stopped New York. Then what we did was we added several additional centers to start collecting some information and to start debugging the system to find out what works well, what percent of phone calls to the call center can we convert to appointments?

We're still working through those numbers; we're going to report those. But three-quarters of the patients that we are now getting to clinics for appointments are in fact qualified patients. One of the concerns early on is that patients that were just making appointments, they weren't qualified for Inspire. They needed help, and we want to get them to a different healthcare provider, but a lot of people have never had a sleep study before. Well, we need to get them to a sleep physician where they can get their initial diagnostic, and they can try a mouth guard, or they can try a CPAP unit, and then knowing several of those, we'll circle back.

What we want to do is kind of triage the calls coming in and make sure qualified patients who are ready get appointments with the healthcare providers that prescribe Inspire. A lot more to come on data there, but we're up to 77, which—how many centers do we have? Three-twenty-eight. We're just at the beginning, just at about a fifth of the centers now, so we have a ways to go. But we've had a chance to really take a lot of phone calls, debug the system, really identify what's working well, and we've made a lot of corrections to improve the process. We'll keep ramping new centers as we work through the rest of the year.

Christopher Pasquale

Thanks.

Tim Herbert

Thanks, Chris.

Operator

We have a question from Jon Block, Stifel. Please go ahead, sir.

Jonathan Block

Great, thanks, guys. Good afternoon.

I just wanted (phon) to build on a couple earlier questions, but just want to take a step back and ask about the drop ratio of patients that you expect to experience from COVID. Tim, maybe oversimplified, but of the patients you expected to undergo upper airway stim in 2020 at the beginning of the year, what do you see now? Do you believe you're going to ultimately recapture 80%+, 90%+? I'm just curious what you're hearing from your sales guys, and then I've got a separate follow-up.

Tim Herbert

Okay, so you're looking at patients who are already in the pipeline and been diagnosed, and including those that may or may not have had their sleep endoscopy. We want to capture the great majority of those.

If they are in a physician practice, we want to make sure that we stay on top of that. What we're trying to do is make sure that, in the interim period when we continue the direct-to-consumer, that we don't have a big fall-off in the number of calls and the number of patients in the center. That's where it's really difficult to track those numbers. But the call center, we get some evidence that we're able to capture those patients, and with the use of virtual tools and telemedicine, we're able to bill practices. But I think that that period's when we probably saw the greatest fall-off, and then we're going to have to continue on.

But again, remember, we had 2.6, 2.8 million people come to the website, and 26,000 people reach out to a doctor. The patient interest remains very, very high, and we just have to stay on top of our game and work with the centers to make sure we capture those patients.

Jonathan Block

Okay, got it. Then maybe as a follow-up question, and Chris alluded to this earlier, but I also want to ask about the centers. They're ramping; you gave the helpful metrics, 60% in July, active implants. Is there a common denominator on the centers, and is it strictly just a geographic argument; is it a tenure (phon) argument? I'm just trying to figure out if the 60%, are some of those at a much higher utilization of upper airway stim relative to some of the other centers? Maybe if you can just talk to that, Tim.

Tim Herbert

Yes, I can talk to that without really talking about COVID. I think if you look at the under 19, we talked about we had one center with over a hundred implants, we had several centers in the upper—so there's always a range of utilization, and Randy Ban, our Chief Commercial Officer, always talks about, how many centers can you get doing two implants a month? Really, it was that simple, simple metric, to be able to grow that number. It's still a little bit limited right now, so of that 60%, you have some centers who have a significant amount of OR time and are really scheduling those cases quickly, and there's others still just ramping up.

It's going to be a whole distribution across the board, but really, utilization continues to be our key focus, and hence, that's why we're even deactivating those 15 sites.

Jonathan Block

Okay. If I can just maybe ask part B of that question and maybe just to be more straightforward; the 60% of centers, in your opinion, did they account for 40% of your overall volume in '19, or 80% of your overall volume? Again, just trying to figure out where they were skewed in terms of utilization of your overall base.

Tim Herbert

That's a very good question. I don't have that answer. I don't think it—at no way could it exceed 40%, but we'll go back and look at that. I think it actually is a small percent because remember how many new centers we opened last year, and the new centers that were opening didn't conduct a lot of implants last year, but they're set up to be really productive centers. We also remember we ended the quarter with 91 territories, so we're really starting to get a good number of territory managers out there who all have active centers, so we're really kind of spreading it out and keeping utilization an important factor across the whole geography.

Jonathan Block

Got it. Very helpful. Thanks, guys.

Tim Herbert

Thank you, John.

Operator

We have a question from Adam Maeder, Piper Sandler. Please go ahead, sir.

Adam Maeder

Hey, guys. Thanks for taking the questions. Maybe to start, just one on the reimbursement front, and apologies if I missed this in the prepared remarks, but any update regarding either Anthem or Humana, just latest expectations there from when we might see a decision from those payers. Then I had a follow up.

Tim Herbert

We know, from Anthem, we've been in communication with them. We know that the American Academy of Otolaryngology (phon), which is the ENT Society, we know that they have been in communication with Anthem and really made sure that they stressed what this is, an important therapy for them to write policy on. We believe that their annual review is between the end of August, September, and we're consciously optimistic they're going to write policy in that timeframe. We have a couple other papers and new studies coming out. We're going to surely get that to them as soon as those are accepted, which is only additional evidence for the Safety and Efficacy, but we do think Anthem is working on it, and we're consciously optimistic.

Humana has a significant part of the business is Medicare Advantage, and by definition, with the LCDs in place, they must cover for Medicare Advantage. We also think it's just a matter of time before Humana writes policy. The other key players in there that we don't have policy yet, Florida Blue we've been working with, and First Coast, the MAC in Florida is on the campus of Florida Blue. We know that they are reviewing and believed to be writing policy, and then near and dear to our heart, all the Inspire employees have Blue Cross, Blue Shield with Minnesota, which doesn't cover. I'm looking over my shoulder, we can see their office, and we'll continue to work them very hard, but we believe that they're going to be writing policy in the very near future as well.

Adam Maeder

Okay, that's very clear. Thanks for the color there, Tim. Just for the follow up, maybe I'll ask about new account adds. You're guiding to new centers of, I think it was, 20 to 24 per quarter for the back half of the year. Can you maybe just talk about your line of visibility there on new center adds. Then I'm wondering how the vax (phon) process has maybe been impacted with COVID-19. Just any color there would be great. Thank you so much.

Tim Herbert

Absolutely. Thank you very much, Adam. Our visibility has been pretty good lately because there's so many centers that were very active and wanted to get active and in the second quarter were unable to do that because they couldn't schedule their first cases. Those are the centers that will get up and running earlier than the third quarter, but we also have a group of other centers that have been in the process. I think their

value add committees or the vax you referenced has continued to work during the COVID period, right? They were still there. We're still able to kind of push those through, so we do have line of sight.

Remember last year we also went and hired four area business managers, one for each of the area Vice Presidents whose sole job was to hunt new centers and find centers that can drive utilization and really be able to treat a number of patients, and we're just starting to see a lot of those centers start coming through in the second half of the year. So, very good visibility to that, and we're pretty confident in the guidance that we're giving you that we'll be able to open that. Rick?

Rick Buchholz

Yes, hey. Adam, I'd like to add to that as well. In addition, we add additional hospitals through some of these national agreements that we've recently entered into, such as ascension (phon), so we've gone through a value analyst (phon) committee on a network wide basis, and they have 150 different hospitals as well as 30 ASCs, and so, we don't have to go through that process. We just need to find an interested ENT and get the patient flow going there. Also, we are going to focus on ASCs, and those are stand-alone smaller facilities that really don't have as formal of a value analyst committee as large stand-alone hospitals.

Adam Maeder

Okay. Very helpful. Thank you.

Rick Buchholz

Thanks, Adam.

Operator

We have a question from Larry Biegelsen, Wells Fargo. Please go ahead, sir.

Larry Biegelsen

Hey, guys. Thanks for taking the question.

Tim Herbert

Hey, Larry.

Larry Biegelsen

Hey, Tim. Wanted to come back to the 60% number. Sorry to beat a dead horse, but two-part question. One, is what's the guidance to assume (phon) what percent of centers are doing cases, and how much of an impediment is a sleep endoscopy test? I had one follow-up.

Tim Herbert

Okay, great. I think by the end of the year, again, we de-activated 15 centers, so I'm going to challenge the field (phon) and Randy that that number is going to be 100% of the centers will be implanting by the end of the year, and that includes new centers that we'll be bringing on by the end of the year. We're going to continue to ramp, and we'll continue to get these centers active. Again, the only challenge we may have is if COVID persists in some of these hot spot regions, but we believe that they will be able to start scheduling cases, or they will find an alternative to be able to do them maybe at ASC.

The second part of your question was in regards to a drug-induced sleep endoscopy, and put some color behind that. Early on in the COVID period, it was scored as a high-risk procedure because of the aerosol because when you use a nasal scope, you can excite the airborne pathogens of COVID, and makes it a little bit riskier for the health care providers. About a month or six weeks ago, that was actually downgraded. ENTs have foreign procedures to make it a more safe procedure, and it was downgraded to just a moderate risk, and with guidance to use PPE when performing those procedures. So, the centers that are doing the implants, equal number are doing sleep endoscopies. Both procedures go hand-in-hand, and so as we open up the new centers, we're able to do sleep endoscopies and build a pipeline right alongside.

Larry Biegelsen

Thanks. That's helpful. Tim, just one long-term question. You're adding six to seven new territories per quarte for the remainder of 2020. What's your ultimate goal here? Do you expect to continue at a similar pace next year, and where do you think you get to over the next few years? Thanks for taking the questions.

Tim Herbert

Okay, long-term, just real top level, we estimate there might be 4,000 hospitals, there might be 4,000 ASCs, and that's 8,000 total, and if we can be in a third of those, that's about 2,400. Did I do that right? We'd like our territory managers to manage between six to eight centers, so you'd end up being close to 400 territory managers.

I think we want to continue our cadence of growth because, Larry, back to the early days when we were talking early on, we continually add, but we never bring on a bring (inaudible) because we always control quality by controlling the patient outcomes, and by adding—now, we've increased the cadence because we're increased the size of our training team, and we've been able to scale our training team just as we can scale the commercial team, and scale the number of centers doing the procedure, and scale the number of procedures that centers do. It all works hand-in-hand, but we have a long-term view of where we want to go.

Larry Biegelsen

Thanks so much, Tim.

Tim Herbert

Thank you, Larry.

Operator

The next question is from Ravi Misra, Berenberg Capital. Please go ahead, sir.

Ravi Misra

Hi, Tim. Hi, Rick. Thank you for taking the question. Just one of the closed centers, you gave us some color that they haven't done implants over the last year. Just curious, were they more recent to come online, or were these some of the older centers in kind of that vintage analysis that you'd given us on prior calls?

Tim Herbert

Yes, there's a little bit of a spread, but I know there's a couple of those centers that date all the way back to 2014, and there will be a group—some of them and each year or each—remember how we always talked

about class? There will be some in every class going forward, but some of them, you might have to shut one down because a surgeon moved, but you've got to remember, you're opening up another one because that surgeon moved.

In the early days, we weren't as strict about training and identifying centers that had everything it took to be successful, and so some of these are the old legacy sites, you're right, that we're closing down. Others are because a surgeon just moved across town or across to a different state. The key to it is we want training through as a (inaudible) probably weren't contributing much revenue anyways, and we want to be able to focus our energy on those centers that can build the utilization and can be able to increase the number of patients that they treat.

Ravi Misra

Great. Thanks. Just a follow-up on that. It sounds like we should expect some level of churn in that base in the future going forward. Then maybe if I can add a fifteenth question or whatever you want to call it to the guidance that you gave to the back half of the year. I'm doing my (audio interference), right. Just the patients treated for center, to kind of get to the top end of your kind of guidance range assumes pretty much flat growth versus last year. That a reasonable way to kind of think about it, and what could take you beyond that? Is this all virus related, or is there anything else that could drive you above that number? Thank you.

Tim Herbert

Absolutely. What was the first question?

Ravi Misra

The first one was just about how to think about the churn that's in your centers on a future basis.

Tim Herbert

Oh, yes. I'm sorry you got me on the second one, I started thinking about that, and I missed the first one.

I don't think so. I think we went through it one time. We really kind of retrained all the centers, we really kind of leaned on the territory managers, identified those centers that we wanted to spend time at and those centers that it's not appropriate to. No, it's not an ongoing churn that we're looking through. You're always going to have a physician move or retire, but we always want to build depth at centers, so there's two surgeons or a third surgeon to be able to continue on a program, so I don't think you're going to expect a lot of that churn going forward.

As far as the guidance goes, yes, there is still some uncertainty as we ramp through starting up the sites after post-COVID. Of course, we're going to be careful about what numbers we give you, and it's probably going to show flat from a utilization standpoint as we ramp up those centers. What can change? Well, the key is number one, if this curve levels off, that's going to really help and be able to get more cases into the centers. We want to be able to open up Miami and the rest of Florida, because of course they haven't been able to go back and work on all their Medicare cases because remember the Medicare policy just came online in the May/June timeframe.

There's still some things that we can work on. We're going to keep driving the call center to be able to drive more patients to centers—continue to increase that. We're going back to our direct-to-consumer and we will start doing more television in the second half of the year and focus that on areas that are able to treat more patients. We're being very creative to make sure that we are in a good position to achieve and even exceed that guidance that we're giving you.

Ravi Misra

Thanks.

Tim Herbert

Thanks, Ravi.

Operator

We have a question from Frank Takkinen, Lake Street Capital Markets. Please go ahead, sir.

Frank Takkinen

Hey. Thanks, guys, for squeezing me in here at the end. I'll just keep it to one to keep it quick. Just to touch on kind of some of geographies that have not seen any recent reflux in COVID spikes and cases. Curious about the current procedural volumes in the more normalized health care areas. What are seeing there on the bolt (phon) procedure side as well as dice (phon) procedures. Are you seeing some of those return to some pre-COVID levels, or how are you thinking about some of the less impacted areas right now?

Tim Herbert

Let's talk about New York, right? New York so significantly impacted, but right now, New York has some of the lowest rates there. There's very good control although the city's gone through a lot. We're seeing a very good rebound there. We're seeing some of the private centers such as Long Island Jewish in the North Well system and over in Hackensack on that side. Even in Manhattan, those centers are coming back very strong, and they have a strong backlog of patients to be able to take care or being able to schedule those cases. We really like what we're seeing there. Philadelphia has always been one of our top cities as far as Thomas Jefferson and UPenn (phon) and several other sites there that continue to grow.

It's across the board. We're seeing increases in Arizona and California. Even the Mayo Clinic is very active, and I don't want to leave out a city, but it's pretty much across the board. You've got to remember the Medicare is having a really strong impact too because Medicare is now present—or Medicare policy is present in every single state. So, these centers are confident that they're going to be paid for the Medicare cases, and that's really going to help those cases as well. It's pretty much across the board.

Frank Takkinen

Great. Thanks for taking my question.

Tim Herbert

Sure, Frank.

Operator

We have a question from Mike Ott, Oppenheimer. Please go ahead, sir.

Mike Ott

Good afternoon. Thanks for squeezing me in here. (Multiple speakers). On the competitive landscapes specifically, I believe, (Inaudible) got FDA approval for its dream trial back in June.

Tim Herbert

Absolutely. While we make (phon) investment in stimulation for sleep apnea, I think that gives credibility to the therapy, and I think that helps the stimulation for sleep apnea as a whole. That being said, yes Effexor did get IV (phon) approval to start their study in the United States. I think they still have a limited amount of data out there. They did publish a paper out of Australia of—I think they implanted 27 patients and showed data on 21 of those patients.

Very, very early on. Having only 20 patients, but I like that there's enough confidence in that data that they are starting out a new trial. Still believe they're probably four years away from any approval in the United States. They are conducting some clinical research in Europe as well. I don't think they've started any of their commercial activity. We haven't seen it yet. I like what they've got going. They had some early feasibility, and they're able to conduct more work, but again, I think they're probably four years away from approval, so it's our job to keep our heads down and keep doing our work.

LivaNova has been pretty quiet. We haven't heard from them for a while because they have the ImThera system.

Mike Ott

Okay. Very helpful. Then if I could, just a couple very quick housekeeping questions. Rick, if you could give us the European ASP again, and also if you guys have been updated total number of patients' implants—I think it was 8,200 or so on your last call. Thanks so much.

Rick Buchholz

Sure. Mike, on the ASP for Europe, 22,200 for the second quarter, and that is compared to 21,900 in the second quarter of 2019.

Mike Ott

Great. Thank you, and do you have the total number of patients implanted handy?

Rick Buchholz

Yes, 9,100.

Mike Ott

Great. Thanks so much, guys.

Tim Herbert

All right, Mike. Thank you.

Operator

Ladies and gentlemen, we have reached the end of the question-and-answer session. I'd like to turn the call back over to Mr. Tim Herbert, President and CEO, for closing remarks. Please go ahead, sir.

Tim Herbert

Thank you very much. Just quickly, thanks everybody 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 strong and consistent patient outcomes.

The Inspire team's commitment to patients remains unmatched and is the most important element to our success. Also wish to thank all the employees as well as the health care teams for their continued, valiant effort during this pandemic and for their focus as we ramp up implant activity, once again, in many sites in the United States and Europe.

For 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 coming weeks and months. Please stay safe and healthy. Thank you.

Operator

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