

Inspire Medical

Steady profitability 2H24; full year profits in 2025; PO to \$265

Reiterate Rating: BUY | PO: 265.00 USD | Price: 226.00 USD

First qtr of op income; guidance for profitability in 2H24

Inspire Medical (INSP) achieved its first qtr with positive operating margins (Q4 op margins were +4.8%) and Q4 EPS came in at +\$0.49 (vs street's negative EPS). For 2024, INSP reiterated revenue guidance for \$775m-\$785m (+24-26% y/y) but gave new comments that it expects to move toward steady operating profitability as 2024 progresses with profitability in 2H24. This commentary suggests 2025 can be full-year profitable. DTC advertising spend is expected to stay flat in 2024 at \$100m (total opex \$700m in 2024). We think as revenue comes in stronger, margins can beat as well. The Q1 guide was a topic on the call (Q1'24 rev down -15-18% q/q; Q4 strength and it takes a couple of qtrs to work through any catchup) but we think this will prove conservative too.

Additional Q4 detail

Q4 revenue of \$192.5m was at the high-end of the preannounced range of \$192.3m-\$192.5m. Q4 GM was 85.4% (+130bps q/q, +150bps y/y), bringing 2023 GM to 84.5%, at the higher end of the preannounced range of 83-85%. INSP reiterated 2024 revenue guidance for \$775m-\$785m (+24-26% y/y) and introduced GM guidance for 83-85%. Revenue guidance assumes 52-56 new US centers/qtr and 12-14 new US territories/qtr, with increased utilization at existing centers continuing to be the primary growth driver. INSP said that it expects indication expansion will start to show in 2024, primarily with the high AHI population, and noted that the pediatric population with down syndrome is getting strong awareness. INSP does not expect Inspire V to have a big impact in 2024 as INSP continues to expect limited launch in 2024 and full launch in 2025.

Move our PO to \$265 on better profitability outlook

We reiterate our Buy rating as we believe INSP can continue to show more operating leverage with time, and profits outweigh Surmount OSA data. We also raise our PO from \$230 to \$265 (8x 2025 sales vs 7x prior) as we give credit for the focus on profitability.

| Estimates (Dec) (US\$) | 2022A | 2023A | 2024E | 2025E | 2026E |
|---------------------------|--------|--------|--------|----------|--------|
| EPS | (1.58) | (0.72) | (1.17) | 0.10 | 0.81 |
| EPS Change (YoY) | -2.6% | 54.4% | -62.5% | NM | 710.0% |
| Consensus EPS (Bloomberg) | | | (0.70) | 0.07 | 1.15 |
| DPS | 0 | 0 | 0 | 0 | 0 |
| Valuation (Dec) | | | | | |
| P/E | NM | NM | NM | 2,260.0x | 279.0x |
| EV / EBITDA* | NM | 150.8x | 165.7x | 75.2x | 59.8x |
| Free Cash Flow Yield* | 0% | 0% | 0% | 0.6% | 0.9% |

* For full definitions of *IQmethod*SM measures, see page 4.

07 February 2024

Equity

Key Changes

| (US\$) | Previous | Current |
|---------------|----------|---------|
| Price Obj. | 230.00 | 265.00 |
| 2025E Rev (m) | 923.3 | 923.2 |
| 2024E EPS | -0.86 | -1.17 |
| 2025E EPS | -0.16 | 0.10 |
| 2026E EPS | 0.28 | 0.81 |

Travis Steed

Research Analyst
BofAS
+1 404 607 3251
travis.steed@bofa.com

Carolyn Huszagh

Research Analyst
BofAS
+1 312 259 7414
carolyn.huszagh@bofa.com

Stephanie Piazzola

Research Analyst
BofAS
+1 646 855 4568
stephanie.piazzola@bofa.com

Craig Bijou

Research Analyst
BofAS
+1 646 855 2590
craig.bijou@bofa.com

Stock Data

| | |
|--------------------------------|-------------------------|
| Price | 226.00 USD |
| Price Objective | 265.00 USD |
| Date Established | 7-Feb-2024 |
| Investment Opinion | C-1-9 |
| 52-Week Range | 123.27 USD - 330.00 USD |
| Mkt Val (mn) / Shares Out (mn) | 6,672 USD / 29.5 |
| Free Float | 98.1% |
| Average Daily Value (mn) | 121.40 USD |
| BofA Ticker / Exchange | INSP / NYS |
| Bloomberg / Reuters | INSP US / INSP.N |
| ROE (2024E) | -5.8% |
| Net Dbt to Eqty (Dec-2023A) | -55.0% |
| ESGMeter™ | Medium |

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

Acronym glossary pg. 2

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Timestamp: 07 February 2024 01:36AM EST

iQprofileSM Inspire Medical

iQmethodSM – Bus Performance*

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|----------------------------|--------|-------|-------|-------|-------|
| Return on Capital Employed | -10.4% | -3.2% | -4.5% | 1.0% | 3.0% |
| Return on Equity | -12.4% | -3.9% | -5.8% | 0.5% | 3.1% |
| Operating Margin | -11.7% | -6.4% | -5.7% | 0.2% | 2.2% |
| Free Cash Flow | 2 | 2 | 2 | 43 | 57 |

iQmethodSM – Quality of Earnings*

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|--------------------------|--------|--------|--------|--------|--------|
| Cash Realization Ratio | NM | NM | NM | 22.3x | 3.6x |
| Asset Replacement Ratio | 4.9x | 8.7x | 7.5x | 8.8x | 10.1x |
| Tax Rate | NM | NM | NM | 77.0% | 30.1% |
| Net Debt-to-Equity Ratio | -89.0% | -55.0% | -52.7% | -53.6% | -54.6% |
| Interest Cover | NA | NA | NA | NA | NA |

Income Statement Data (Dec)

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|------------------------------|--------------|--------------|---------------|-----------|---------------|
| Sales | 408 | 625 | 781 | 923 | 1,069 |
| % Change | 74.7% | 53.2% | 25.0% | 18.3% | 15.8% |
| Gross Profit | 342 | 528 | 656 | 779 | 904 |
| % Change | 70.8% | 54.6% | 24.2% | 18.7% | 16.1% |
| EBITDA | 6 | 42 | 38 | 84 | 106 |
| % Change | NM | 573.3% | -8.9% | 120.3% | 25.7% |
| Net Interest & Other Income | 3 | 20 | 12 | 12 | 12 |
| Net Income (Adjusted) | (45) | (21) | (36) | 3 | 25 |
| % Change | -6.8% | 52.9% | -68.1% | NM | 682.7% |

Free Cash Flow Data (Dec)

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|--|-----------|---------------|---------------|-----------|--------------|
| Net Income from Cont Operations (GAAP) | (45) | (21) | (36) | 3 | 25 |
| Depreciation & Amortization | 2 | 3 | 3 | 3 | 3 |
| Change in Working Capital | 2 | (37) | (21) | (15) | (18) |
| Deferred Taxation Charge | NA | NA | NA | NA | NA |
| Other Adjustments, Net | 53 | 82 | 79 | 79 | 79 |
| Capital Expenditure | (9) | (24) | (23) | (28) | (32) |
| Free Cash Flow | 2 | 2 | 2 | 43 | 57 |
| % Change | NM | -10.9% | -10.0% | NM | 34.5% |
| Share / Issue Repurchase | 260 | 31 | 16 | 16 | 16 |
| Cost of Dividends Paid | 0 | 0 | 0 | 0 | 0 |
| Change in Debt | 0 | 0 | 0 | 0 | 0 |

Balance Sheet Data (Dec)

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|---------------------------------------|------------|------------|------------|------------|------------|
| Cash & Equivalents | 442 | 347 | 365 | 424 | 497 |
| Trade Receivables | 61 | 90 | 109 | 127 | 147 |
| Other Current Assets | 27 | 172 | 177 | 181 | 187 |
| Property, Plant & Equipment | 17 | 40 | 61 | 85 | 114 |
| Other Non-Current Assets | 18 | 38 | 38 | 38 | 38 |
| Total Assets | 565 | 687 | 749 | 855 | 983 |
| Short-Term Debt | 0 | 0 | 0 | 0 | 0 |
| Other Current Liabilities | 61 | 76 | 79 | 85 | 93 |
| Long-Term Debt | 0 | 25 | 25 | 25 | 25 |
| Other Non-Current Liabilities | 8 | 0 | 0 | 0 | 0 |
| Total Liabilities | 69 | 101 | 104 | 111 | 119 |
| Total Equity | 496 | 586 | 645 | 744 | 864 |
| Total Equity & Liabilities | 565 | 687 | 749 | 855 | 983 |

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Medical Technology

Company Description

Inspire Medical Systems, Inc. operates as a medical technology company. The company develops implantable neurostimulation systems to treat obstructive sleep apnea.

Investment Rationale

Inspire provides an effective treatment for moderate to severe obstructive sleep apnea patients when CPAP therapy fails. INSP has been hitting on all cylinders with DTC advertising and having a best-in-class product portfolio. INSP's pipeline could keep this market expanding as they continue to address many of the things doctors have mentioned as potential roadblocks and make the procedure more economical for doctors to perform.

Acronym glossary

qtr = quarter

op = operating

DTC = direct to consumer

GM = gross margin

OSA = obstructive sleep apnea

Stock Data

Average Daily Volume 537,171

Quarterly Earnings Estimates

| | 2023 | 2024 |
|----|--------|--------|
| Q1 | -0.53A | -0.85E |
| Q2 | -0.41A | -0.43E |
| Q3 | -0.29A | -0.23E |
| Q4 | 0.49A | 0.33E |

Price objective basis & risk

Inspire Medical (INSP)

Our \$265 PO is based on 8x our 2025 rev. With INSP executing and revenue growth remaining strong there are reasons to believe that INSP can eventually achieve profitability. This allows us to assign INSP an EV/Sales at the high end of the medtech SMID group.

Risks are 1) future competitors could pose a risk, 2) procedure interruptions due to COVID-19, 3) lack of ability to train doctors and have doctors want to do the procedure, and 4) heavier weighted OUS exposure to Germany.

Analyst Certification

I, Travis Steed, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Medical Technology & Devices Coverage Cluster

| Investment rating | Company | BofA Ticker | Bloomberg symbol | Analyst |
|---------------------|---------------------------------|-------------|------------------|--------------|
| BUY | | | | |
| | Abbott Laboratories | ABT | ABT US | Travis Steed |
| | Axonics | AXNX | AXNX US | Travis Steed |
| | Bausch & Lomb | BLCO | BLCO US | Craig Bijou |
| | Becton Dickinson | BDX | BDX US | Travis Steed |
| | Boston Scientific | BSX | BSX US | Travis Steed |
| | Dexcom | DXCM | DXCM US | Travis Steed |
| | Inari Medical | NARI | NARI US | Travis Steed |
| | Inspire Medical | INSP | INSP US | Travis Steed |
| | Insulet | PODD | PODD US | Travis Steed |
| | Intuitive Surgical | ISRG | ISRG US | Travis Steed |
| | Medtronic | MDT | MDT US | Travis Steed |
| | Paragon 28 | FNA | FNA US | Craig Bijou |
| | Procept BioRobotics Corporation | PRCT | PRCT US | Craig Bijou |
| | RxSight | RXST | RXST US | Craig Bijou |
| | Shockwave Medical | SWAV | SWAV US | Travis Steed |
| | Si-Bone | SIBN | SIBN US | Craig Bijou |
| | Stryker | SYK | SYK US | Travis Steed |
| | The Cooper Companies | COO | COO US | Craig Bijou |
| NEUTRAL | | | | |
| | Baxter International Inc | BAX | BAX US | Travis Steed |
| | Conmed | CNMD | CNMD US | Travis Steed |
| | Edwards Lifesciences | EW | EW US | Travis Steed |
| | GE HealthCare | GEHC | GEHC US | Craig Bijou |
| | Integer Holdings Corporation | ITGR | ITGR US | Craig Bijou |
| | Teleflex Incorporated | TFX | TFX US | Craig Bijou |
| | Zimmer Biomet | ZBH | ZBH US | Travis Steed |
| UNDERPERFORM | | | | |
| | Embecta | EMBC | EMBC US | Travis Steed |
| | Globus Medical | GMED | GMED US | Craig Bijou |
| | Integra Lifesciences | IART | IART US | Craig Bijou |
| | Nevro | NVRO | NVRO US | Travis Steed |
| | Outset Medical | OM | OM US | Travis Steed |



US - Medical Technology & Devices Coverage Cluster

| Investment rating | Company | BofA Ticker | Bloomberg symbol | Analyst |
|-------------------|----------------------|-------------|------------------|--------------|
| | Silk Road Medical | SILK | SILK US | Travis Steed |
| | Tandem Diabetes Care | TNDM | TNDM US | Travis Steed |

iQmethodSM Measures Definitions

| | | |
|-----------------------------|--|--|
| Business Performance | Numerator | Denominator |
| Return On Capital Employed | $\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$ | $\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill Amortization}$ |
| Return On Equity | Net Income | Shareholders' Equity |
| Operating Margin | Operating Profit | Sales |
| Earnings Growth | Expected 5 Year CAGR From Latest Actual | N/A |
| Free Cash Flow | $\text{Cash Flow From Operations} - \text{Total Capex}$ | N/A |
| Quality of Earnings | Numerator | Denominator |
| Cash Realization Ratio | Cash Flow From Operations | Net Income |
| Asset Replacement Ratio | Capex | Depreciation |
| Tax Rate | Tax Charge | Pre-Tax Income |
| Net Debt-To-Equity Ratio | $\text{Net Debt} = \text{Total Debt} - \text{Cash \& Equivalents}$ | Total Equity |
| Interest Cover | EBIT | Interest Expense |
| Valuation Toolkit | Numerator | Denominator |
| Price / Earnings Ratio | Current Share Price | Diluted Earnings Per Share (Basis As Specified) |
| Price / Book Value | Current Share Price | Shareholders' Equity / Current Basic Shares |
| Dividend Yield | Annualised Declared Cash Dividend | Current Share Price |
| Free Cash Flow Yield | $\text{Cash Flow From Operations} - \text{Total Capex}$ | $\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$ |
| Enterprise Value / Sales | $\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$ | Sales |
| EV / EBITDA | Enterprise Value | $\text{Basic EBIT} + \text{Depreciation} + \text{Amortization}$ |

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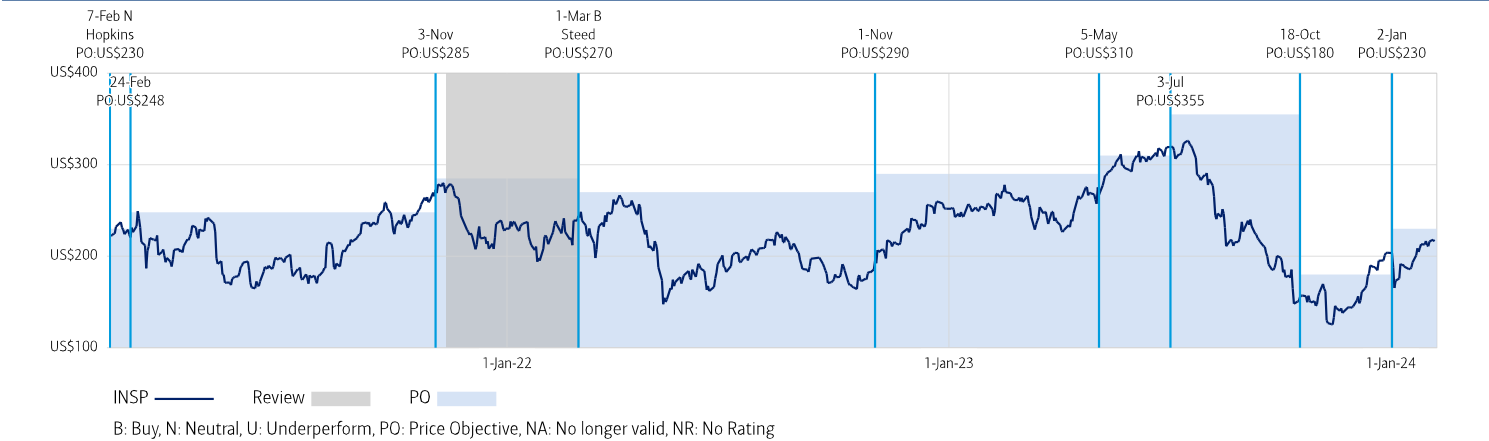
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Inspire Medical Syst (INSP) Price Chart



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Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

| Coverage Universe | Count | Percent | Inv. Banking Relationships ^{R1} | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy | 234 | 60.94% | Buy | 115 | 49.15% |
| Hold | 80 | 20.83% | Hold | 36 | 45.00% |
| Sell | 70 | 18.23% | Sell | 29 | 41.43% |

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

| Coverage Universe | Count | Percent | Inv. Banking Relationships ^{R1} | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy | 1895 | 53.62% | Buy | 1083 | 57.15% |
| Hold | 832 | 23.54% | Hold | 454 | 54.57% |
| Sell | 807 | 22.84% | Sell | 383 | 47.46% |

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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| Investment rating | Total return expectation (within 12-month period of date of initial rating) | Ratings dispersion guidelines for coverage cluster ^{R2} |
|-------------------|---|--|
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| Neutral | ≥ 0% | ≤ 30% |
| Underperform | N/A | ≥ 20% |

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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