

A Multi-Bagger Stock In The Making: InMode Has All The Right Traits

<https://seekingalpha.com/article/4397095-multi-bagger-stock-in-making-inmode-all-right-traits>

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Summary

- InMode is an outperformer and leader in the growing medical aesthetic devices industry. Its products are made for a variety of purposes including liposuction, skin rejuvenation, cellulite treatment, and more.
- InMode is an asset-light business with high returns on capital and a flawless balance sheet. Its strong financial position allowed it to recently start executing share buybacks.
- The company is founder led. Insiders own a large percentage of the company and haven't sold any shares this year, indicating confidence in the company and a long-term mindset.
- Based on our conservative estimates, InMode is trading near fair value.
- As Buffett once said, "It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price."

What is InMode About?

InMode Ltd. ([INMD](#)) is a provider of minimal and non-invasive radio-frequency technology. Its innovative technology strives to improve surgical procedures. These commercialized products are used by plastic surgeons, gynecologists, dermatologists, and more.

Its products are made for a variety of purposes including liposuction, permanent hair reduction, facial skin rejuvenation, wrinkle reduction, cellulite treatment, skin appearance and texture, and superficial benign vascular and pigmented lesions. InMode operates in the U.S. and internationally. It was founded in 2008 and is headquartered in Yokneam, Israel.



Why Is InMode A Good Buying Opportunity?

InMode is the best stock in the quickly growing medical aesthetic devices industry, which is why it has outperformed its peers. It sports a high cash return on invested capital of 32%, consistently high gross margins, very low capital expenditures, high growth, and a flawless balance sheet with no debt.

Although the company saw headwinds due to COVID-19 earlier in the year, by Q3, the demand for its products was pent-up which allowed INMD to make up for the temporary loss in sales. There is still ongoing demand according to management, during a time period where demand typically drops off.

INMD is a founder-led company and its insiders own a large portion of the stock. These insiders haven't sold a share the entire year, implying that they believe in the company and are focused on long-term objectives. The products are also trusted by many celebrities such as Kim and Kourtney Kardashian.

In addition, the company recently started a share buyback program (more on this below). We think this is a good use of their excess cash.

A potential multi bagger: If you have read the book 100 baggers by Christopher Mayer, then you would realize INMD has many of the qualities of a multi bagger. These qualities include founder-operated businesses with high returns on capital, growth, high gross profit margins, share buybacks (when done right), potential for P/E expansion (INMD's P/E ratio is about 27, which is not high at all for a growth stock), and more.

INMD's market cap is about \$1.5 billion, or 3x larger than the average 100 bagger of \$500 million market cap. Therefore, we are not expecting a 100x return on the stock any time soon, but it definitely has the potential for an excellent return. [Here's an article](#) that outlines most of the lessons (but not all) that you can learn from 100 baggers.

Lastly, based on our conservative estimates, INMD is trading near fair value. Great companies trading near or under fair value warrant a buy rating from us.

How Has The Company Performed Throughout COVID-19?

2020 was a crazy year, but here's how InMode dealt with it:

In Q2, INMD saw a 21% drop in revenue year-over-year. This should come as no surprise though. The great thing about its Q2 performance is the fact that it held up so much better than its competitors and still remained profitable (more detailed competitor analysis below). At a time when competitors were downsizing their operations, InMode thought it was best to keep investing in their business as usual, according to CEO Moshe Mizrahy.

This strategy ended up working. In Q3, INMD saw record revenue, a 49% increase year-over-year, which brought record earnings and cash flow along with it.

The strong results lead INMD to start a 1 million share buyback program in Q3. When asked by an analyst if there would be even more buybacks in the future, CEO Moshe Mizrahy said "later on maybe we'll add more". The company has lots of cash to deploy and a perfect balance sheet, but it is being careful and strategic with its capital allocation.

InMode has also seen a lot of demand for its products since Q3. In the Q3 conference call, Spero Theodorou of InMode said:

So, we're actually seeing a lot of demand. We thought the demand initially was compressed demand for back in the spring and we kind of expected it to sort of taper off in the months of September, October. But these are unusual times and demand has continued. And exactly like Shak said, it's not necessarily everywhere the same, but the continued demand is an aberration because traditionally, in the aesthetic world, usually, September things typically drop off from the more plastic surgery procedures and the mothers usually take the kids back to school. It's a large element of the practices. But we haven't seen that. This is continuing demand. I think it's because of people having what Shak said, definitely have more income and sitting around and not spending on other things, but we've continued to see this demand through this period of time, which is definitely unprecedented. And we welcome it, of course. Overall, INMD is doing quite well now, and the operating results prove it.

How Does InMode Compare To Its Peers?

Below is an industry analysis comparing INMD to its direct competitors that are publicly traded. We broke it up into two images just so it's larger/easier to read.

Company	Market Cap	Capex Margin	Gross Profit Margin	Y-o-Y Revenue Growth
INMD	1.55B	0.34%	85.21%	28.8%
CUTR	425M	0.83%	51.16%	-14.7%
VERO	90.6M	0.85%	64.76%	-21.6%
APYX	246.8M	1.70%	62.39%	-4.2%
VIVE	10.2M	12.88%	-1.40%	-48.0%

Company	Days Inventory Outstanding	Quick Ratio	CROIC
INMD	162.02	6.67x	32.73%
CUTR	158.35	1.33x	-28.34%
VERO	217.37	1.93x	-37.84%
APYX	249.29	5.18x	-26.14%
VIVE	315.38	2.95x	-110.30%

Source: Author using data from Finbox

Capital Expenditures Margin: INMD has very low capital expenditures (0.34% of total revenue). This means that it does not need to reinvest much into the business to grow, leaving it with strong amounts of free cash flow. Most of the other competitors have low capex margins as well, but INMD leads in this.

Gross Profit Margin: InMode has the highest gross profit margin (85.2%) by a large margin, no pun intended. ([VERO](#)) is the closest competitor at around a 65% gross profit margin.

Y-o-Y Revenue Growth: While the competitors have seen revenue declines this year because of COVID-19, INMD was still able to achieve 28.8% revenue growth compared to its last twelve months. This is very impressive given the circumstances.

Days Inventory Outstanding: This is essentially the amount of days it takes for a company to sell its inventory. INMD and (NASDAQ:[CUTR](#)) lead this one, with CUTR being slightly better at 158 days (the lower the better), but the other competitors are not even close.

Quick Ratio: A measure of a company's liquidity (the higher the better). INMD leads this category as well at a 6.7x quick ratio.

Cash Return on Invested Capital: InMode is the only free cash flow positive (and net income positive) stock in the competitors list. Therefore, it is the only one with a positive CROIC.

CROIC is calculated by taking free cash flow and dividing it by the average invested capital. There are a few ways of calculating invested capital, but for this comparison we applied the conservative method of using average debt + average equity. Using this method, INMD's CROIC was still ~33%, which is again very impressive given the pandemic.

Comparison of Industry Procedures

We have compiled a list of different procedures that compete with InMode a grouped them in the following categories: Fat Loss (Non-invasive), Fat Loss (Minimally Invasive), Women's Health, Skin Tightening, and Face Lift Alternatives.

We compare the average costs and worth it ratings obtained from [realself.com](#). RealSelf is a very popular website for cosmetic surgery/procedures reviews. This includes reviews by both doctors and patients.

Fat Loss (Non-invasive)

Name of Treatment	Fat Loss Efficacy	RealSelf.com Worth It Rating	Avg Cost of Treatment	Additional Notes
SculpSure	20-24%	68%	\$2,175	laser energy
CoolSculpting	25%	83%	\$2,450	Freezes fat cells
BodyFX (INMD)	39.60%	88%	\$925	Radiofrequency energy
truSculpt iD	24%	89%	\$1,975	monopolar radiofrequency
Vanquish	25-30%	50%	\$2,200	radiofrequency energy
Evolve (INMD)	30%	n/a	\$3,000	tightens skin by 15%
Ultrashape	32%	82%	\$2,475	ultrasound-frequency energy

Fat loss (Minimally Invasive)

Name of Treatment	RealSelf.com Worth It Rating	Efficacy	Avg Cost of Treatment	Additional Notes
Bodytite (INMD)	76%	25-45% contraction of soft tissue	\$6,675	From Realself: Most RealSelf members who rated it "Not Worth It" saw providers who were not board-certified plastic surgeons. For optimal results, find a board-certified plastic surgeon with plenty of BodyTite experience.
Venus Bliss	not found on RealSelf.com	30% fat loss (potentially more)	Unable to find clear or reliable data for average price	Combines radiofrequency energy and magnetic pulses with a suction component to tighten skin and reduce cellulite while reducing pockets of fat. One study showed that 75% of the patients were satisfied with the results.

Women's Health

Name of Treatment	RealSelf.com Worth It Rating	Avg Cost of Treatment	Additional Notes
Votiva (INMD)	92%	\$2,450	Bipolar RF is newer tech
Viveve	71%	\$2,700	monopolar RF, requires only 1 session
ThermiVa	95%	\$2,650	Unipolar RF is older tech

Skin Tightening

Name of Treatment	RealSelf.com Worth It Rating	Avg Cost of Treatment
Cutera Secret RF	86%	\$1,175
Morpheus8 (INMD)	77%	\$1,875
Vivace	85%	\$850
Infini RF	64%	\$1,600
Venus Legacy	55%	\$2,100
Venus Freeze	58%	\$1,225
Venus Viva	73%	\$750

Face Lift Alternatives

Name of Treatment	RealSelf.com Worth It Rating	Avg Cost of Treatment	Additional Notes
Facetite (INMD)	75%	\$5,050	Minimally invasive, requires anesthesia
Thermage	77%	\$2,475	Non-invasive, uses RF, comparable to Evoke
Kybella	59%	\$1,375	Injectible
Evoke (INMD)	Very little info on Evoke, same technology as Evolve. Reasonable to assume similar results		

Source: All five images above by author

As you can see, InMode's products are very competitive, especially with its fat loss technology. The company has a good mix of products that deliver great results at better prices as well as products that command a premium over comparable ones.

Past Performance

One thing that stands out when looking at INMD is its very high gross profit margins (see below).



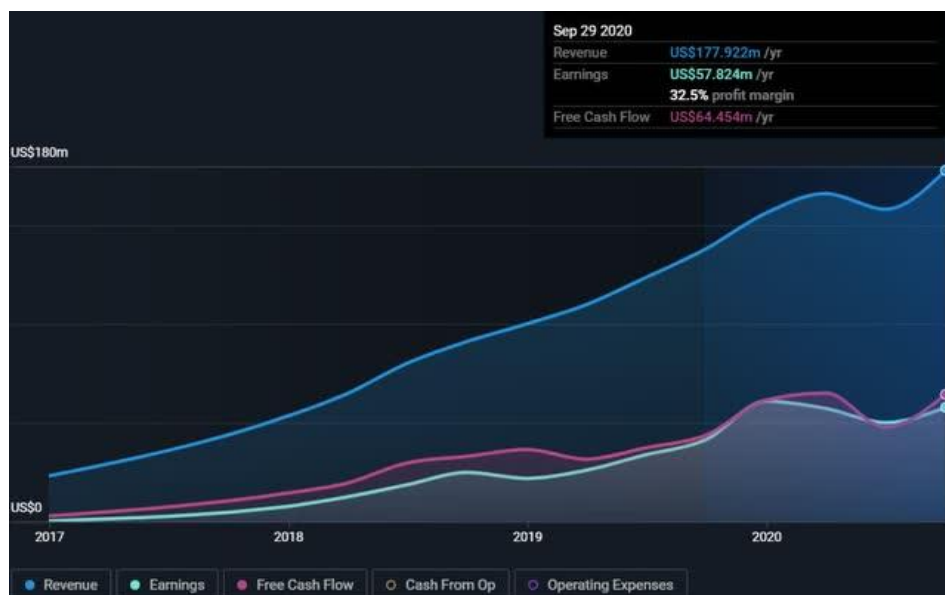
Performance Summary

InMode's latest twelve months gross profit margin is 85.2%.

Source: Finbox

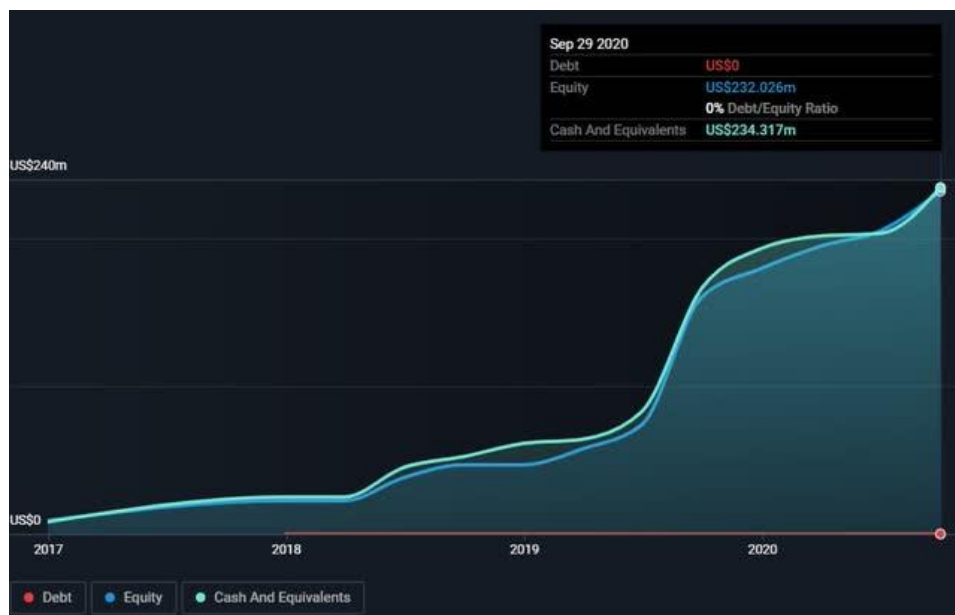
The company has been able to maintain gross margins above 80% since 2017, indicating that it has been able to defend itself against competition (a competitive disadvantage would cause INMD to see declining margins over time). Even during the worst of the pandemic in Q2, it was able to maintain its gross profit margins.

Consistent Growth: Below is a chart showing revenue in blue, earnings in green, and free cash flow in purple. Except for the Q2 COVID-19 drag on operations, INMD has consistently grown every quarter. Its growth is attributed to investing in research & development to create great products and a successful sales and marketing team to bring awareness to consumers.



Source: Simplywall.st

Strong Balance Sheet: INMD has a perfect balance sheet with no debt and \$234 million in cash & equivalents, shown below.

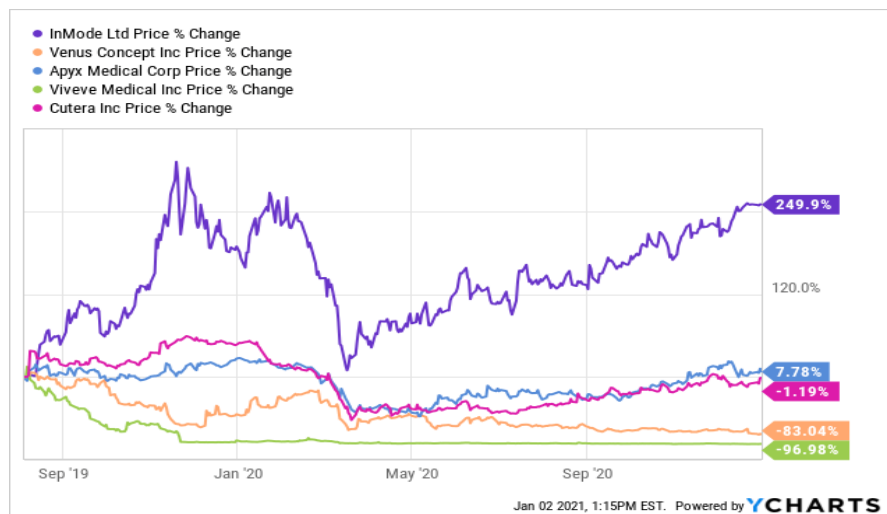


Source: Simplywall.st

Furthermore, InMode is highly liquid, with a current ratio of 7.2x and a quick ratio of 6.7x. It also has low inventory requirements. Its current inventory is only worth about \$14.87 million.

Strong Fundamentals Allowed INMD's Stock To Outperform Peers:

Below is a chart of INMD's stock price % change since its IPO in 2019. As you can see, it vastly outperformed its peers.



Data by YCharts

INMD also outperforms on a 1-year chart, as it has returned over 21% in the past year while all the competitors are negative in the same period.

Celebrities Love InMode Products

Marketing is obviously very important. InMode has done a great job using Paula Abdul as its brand ambassador. Other celebrities like Kim and Kourtney Kardashian, Amber Rose, Noah Cyrus, Paige Hathaway (and many others) have used its products. InMode is a well-known company in the industry with a great product that even celebrities trust, so this gives us more confidence in its products.

Here's a snippet from InMode's website:

OUR BRAND AMBASSADOR

Paula Abdul

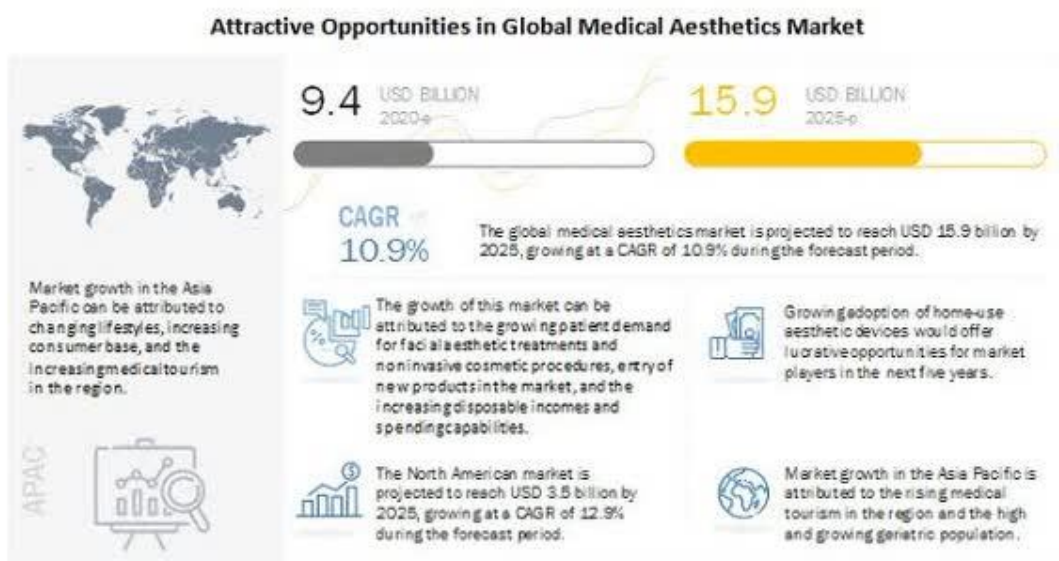
"I am proud to get the word out about what InMode's amazing technology in face and body rejuvenation can do for people like me who notice the inevitable effects of natural aging," says Paula Abdul, "What I loved about it is it's minimally invasive, with no visible scars and very little down time – I was out walking around 2 to 3 days later."

InMode makes sure to market the fact that their products are minimally invasive, which is a key selling point since no one wants to experience scarring after a procedure.

Industry Forecasts

According to [marketsandmarkets.com](https://www.marketsandmarkets.com), the global medical aesthetics market is projected to reach \$15.9 billion by 2025 from \$9.4 billion in 2020, at a CAGR of 10.9%. This is due to a growth in popularity for minimally invasive and noninvasive aesthetic procedures, further innovation of these medical devices, and an increasing demand for aesthetic treatments among men.

Here's one thing to keep in mind though: Market growth is limited to a certain extent by factors such as the clinical risks and complications associated with these types of procedures and the increasing availability of alternative beauty and cosmetic products.







Source: [marketsandmarkets.com](https://www.marketsandmarkets.com)

INMD's market cap is about \$1.5 billion. With the global medical aesthetics market forecasted to be worth \$15.9 billion by 2025, there is still room for the company to grow in its industry.

Insiders Own A Large Portion of The Company

Another thing that makes us confident with InMode is the amount of stock that insiders own, particularly the first four in the image below.

Ownership	Name	Shares	Current Value	Change %	Portfolio %
14.57%	Michael Kreindel  	5,188,100	\$245.7m	0%	no data
14.28%	Moshe Mizrahy  	5,085,328	\$240.8m	0%	no data
13.11%	Israel Healthcare Ventures	4,667,754	\$221.1m	0%	93.02%
11.5%	Stephen Mulholland Family Trust	4,096,810	\$194.0m	0%	no data
2.63%	Miura Global Management, LLC	938,000	\$44.4m	-20.17%	10.59%
1.79%	FMR LLC	636,019	\$30.1m	-2.89%	no data
1.76%	The Phoenix Investment and Finances Ltd.	628,443	\$29.8m	143.24%	0.49%
1.68%	ibex Investors LLC	600,000	\$28.4m	206.12%	10.64%
1.49%	Millennium Management LLC	530,484	\$25.1m	1839.61%	0.05%
1.33%	Gluskin Sheff + Associates Inc.	473,130	\$22.4m	-27.53%	1.3%

Source: Simplywall.st

Let's start with the first two from the picture: Michael Kreindel (Chief Technology Officer and Director), and Moshe Mizrahy (Chief Executive Officer and Chairman of Board of Directors). Both of them co-founded InMode in 2008 and own a combined ~29% stake of the company. They were also both co-founders of Syneron Medical Ltd., another medical devices company, and were there from 2001-2007. So, this isn't their first rodeo, they have experience.

Then, there is Israel Healthcare Ventures as the third-largest holder. It was founded and has been managed by Dr. Hadar Ron, who is part of the board of directors. So, adding those three board of directors gets you to about ~42% ownership, which is impressive.

The next one, Stephen Mulholland Family Trust, is also interesting. Dr. Stephen Mulholland is not part of the board of directors, but he is a well-known Canadian plastic surgeon (and former hockey player). The fact that people who are specialized in the industry are heavily invested in INMD gives us extra conviction that the company is solid.

What Is The Importance Of All This?

The main reason that this is important is because founder-led companies usually outperform the market. This is a well-known fact, but if you don't want to take our word for it, check out [this article](#) from Harvard Business Review. This was also discussed in the book 100 Baggers by Christopher Mayer that we mentioned earlier. Some great examples of this are ([FB](#)) and ([AMZN](#)). So, this applies to the top two holders of INMD.


The article goes into more detail, but here's the main idea:

"Founders have the moral authority to make the hard choices, they know the detail of the business and have better instincts, and they have a long-term perspective on investments and building a company that lasts."

It also states that founder-led companies are more innovative and quicker to act. This is exactly what makes INMD so good. Their co-founders know the business in and out, and built it themselves. If a company doesn't innovate, especially in the tech industry, it's most likely going to fail. Next, Dr. Hadar Ron is a medical specialist with lots of business experience, being involved with around a dozen other businesses. Therefore, she seems fit for her role as a board member of INMD with 13% ownership. Lastly, with Dr. Stephen Mulholland, as we mentioned earlier, we think a large position from a well-known plastic surgeon is a great sign.

What we like about this ownership composition (especially the co-founders), is that these types of shareholders generally don't sell often. They want to see the business grow, and because they have a large investment and interest in the business, they will make sure that happens.

Insiders haven't sold at all in the past 12 months, even though the lock-up period expired in early February. See below:



	Shares sold	Shares bought
0-3 months	0	0
3-6 months	0	0
6-9 months	0	0
9-12 months	0	0

Source: Simplywall.st

This reinforces our point that it's unlikely for these kinds of owners to sell. No one has bought either, but we are not concerned about that since the ownership is already so high.

Valuation

Based on our estimates below, InMode is valued between \$45.92 (fully diluted) - \$52.66 (basic shares).

However, we would strongly like to stress the fact that this is our base case conservative estimate which assumes revenue will continue to grow at \$50 million for the next six years.

Given that the company has very strong cash flows, and industry consolidation has become more common, it is reasonable to assume that InMode will participate in mergers and acquisitions. In addition, it's also reasonable to assume that the company will continue to

make great technological discoveries as its cash flows and cash position continues to grow. We believe that these two factors will result in higher future cash flows than our forecast.

Furthermore, management expects taxes in 2021 to remain the same and then increase to 11-12% in 2022. We assumed a tax rate of 11.5% until 2025 and then increased to 17% for the stable phase (marginal tax rate of InMode as per Finbox).

Year	2021	2022	2023	2024	2025	2026
(numbers in millions of USD)						
Revenue	\$250.00	\$300.00	\$350.00	\$400.00	\$450.00	\$500.00
EBIT Margin	32.14%	31.89%	31.64%	31.39%	31.14%	30.89%
EBIT	\$80.35	\$95.67	\$110.74	\$125.56	\$140.13	\$154.45
Tax Rate	1.20%	11.50%	11.50%	11.50%	11.50%	17.00%
NOPAT	\$79.39	\$84.67	\$98.00	\$111.12	\$124.02	\$128.19
Reinvestment Rate	14.03%	14.03%	14.03%	14.03%	14.03%	14.03%
FCFF	\$68.25	\$72.79	\$84.25	\$95.53	\$106.62	\$110.21
DISCOUNTED	\$65.82	\$65.31	\$70.32	\$74.17	\$77.00	\$74.04

Assumptions and Key Inputs

Inmode will most likely be able to maintain EBIT at around 30% due to their superior products, operational efficiency, and reputation. Their strong cash flows will probably allow them to engage in M&A and strengthen their industry position as a result.	Discount Rate	7.5%	Terminal value	\$1,346.18
	Perpetual Growth	2%	Equity Value	\$1,932.59
	3 yr avg EBIT mar.	32.14%	Per Share Basic	\$52.66
	Margin Decline	0.25%	Per Share Diluted	\$45.92
	Revenue Growth	\$50 million/year		
		(current year revenue rounded to 200 million)		

Source: Author

Risks Associated With InMode

Heavy Competition and Industry Consolidation:

InMode is in a very competitive industry. Here's a quote from INMD's 2019 annual report:

"Our products compete against products offered by public companies, including Allergan plc, Cutera, Inc., Apyx Medical Corporation, Venus Concept Inc. and Viveve Medical, Inc., as well as by private companies such as Cynosure LLC, Lumenis Ltd., Sisram Medical Ltd. and Syneron Medical Ltd. Competition with these companies could result in reduced prices and profit margins and loss of market share, any of which could harm our business, financial condition and results of operations."

Another quote:

The trend towards consolidation in our industry has increased, and may continue to increase, the intensity of the competition in our industry and could result in increased downward pressure on our product prices. Recently, many of our competitors in the aesthetics market have acquired other companies that operate within the same market. If this trend continues, we will be forced to compete primarily with and against larger competitors with greater resources and distribution networks. Our competitors could use their greater financial resources to acquire other companies to gain enhanced name recognition and market share,

as well as to develop new technologies or products that could effectively compete with our product lines. If we are unable to effect strategic mergers or acquisitions of our own and are unable to obtain capital and other resources that would allow us to compete effectively, our business will be harmed.

While some companies can afford to somewhat lay back because of reduced competition, InMode is not in one of those industries. Its ability to keep innovating and remain ahead of the competition will determine its future success. Given that the company has a good track record of innovation and is founder led, we think that it will continue to stay ahead of the curve.

High-Beta Stock: INMD's 2-year weekly beta is 1.89, making it 89% more volatile than the S&P 500. Therefore, don't expect a smooth ride if you buy this stock as there can be fairly large drawdowns if you time it wrong.

Conclusion

It's easy to see why Al Pacino's character in "The Devil's Advocate" famously said, "Vanity, definitely my favorite sin." People spend big money to improve their appearance. However, it seems like InMode is one of the few capable of fully capitalizing on the opportunity.

InMode has many qualities of a multi-bagger stock. The company blows the competition out of the water in terms of operational efficiency and has very strong brand recognition. In addition, the company insiders have shown that they believe in the company as no shares traded hands throughout the pandemic. As a result, we believe the company will continue to see strong growth and reward the shareholders who are willing to hold on for the ride.