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InMode: Taking Notes From Align Technologies

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InMode Ltd. (INMD)
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Summary

- InMode has consistently executed its business flawlessly with exceptional margins.
- The company has dedicated management with a long-term outlook.
- The company's technology has many other possibilities which are currently in development.
- InMode is operating in a very similar fashion to Align Technology's early days.

Intro & Thesis

When you keep the basics in mind, you never have to go "back to the basics." Some things never change. When evaluating a company, I still look for the same characteristics that I learned in my first lesson:

- A growing company
- A great balance sheet
- Efficient deployment of capital
- High insider ownership
- Operations that are superior to the competition, or moat
- A product or service that people will still want regardless of the current era
- Management with both short term discipline and long-term vision
- Preferably at a reasonable price

InMode (NASDAQ:INMD) crushes this checklist. Obviously, the numbers & financials of any company are of extreme importance. But just as important is the underlying company & how it operates. I was curious about the science behind the company. I wanted to know how the science behind the company operated today and how it will continue to operate in the future.

As almost everyone in the investment world knows, The Oracle of Omaha doesn't invest in anything he doesn't understand. I take this advice seriously. Because I do, I must have a deep grasp of a company's operations before I put my eggs in the basket.

Last week I had the pleasure of speaking with Moshe Mizrahy, the transcripts of which are below this article. Rather than focusing on the numbers, Mr. Mizrahy took me through the technology of InMode. He talked about how the technology operates today, and the direction the company can go over the next several years. InMode possesses all the characteristics of the checklist above. Mr. Mizrahy's description of the technology demonstrates why InMode is a buy even at its current premium price.

In this piece I will lay out my bullish thesis for InMode. I will discuss everything from the business model, the technology, and the competition. I will also compare InMode's current operations to the early days of Align Technology (NYSE:ALGN). Although Align is in a completely different business, I see many similarities which will demonstrate to the bullish thesis. Grab your snorkels, it's time for a deep dive.

The Company

InMode was established in 2009 by Dr. Michael Kreindel and Moshe Mizrahy as co-founders. InMode raised $3.5 M as seed investment (the only capital that was raised by the company until the IPO) from the founders and an Israeli-based VC Fund. InMode is a global healthcare equipment company that currently designs, manufactures & markets minimally invasive aesthetic medical devices. The company sells equipment on 6 continents. In North America, InMode sells its products directly to doctors & clinics. Elsewhere in the world, InMode operates through its wholly owned subsidiaries to sell its products or sells to distributors.

InMode is currently operating at an 85% gross margin. For the trailing twelve months, sales are up 81%, operating income is up 164%, and net income 154%.For the last 2 quarters, revenues grew 62% & 184% YOY, 345% & 412% for operating income, and 314% & 376% for net income. As of its most recent quarter, InMode is sitting on $62M in cash with $52M in total liabilities.

What Does Align Have To Do With InMode & Why Should I Care?

On the History Channel they say: Those who don't understand History are doomed to repeat it. The same can be applied to investments. If one does not understand why a business was successful, he will either miss the next opportunity or not recognize superior competition. Sears is the perfect example of this. In its simplest form, Amazon's (NASDAQ:AMZN) retail website & phone application is a digital form of the Sears Catalog from 1888. It's ironic how Amazon is practically responsible for Sears' downfall even though the business model is from the same playbook. This is why I consider Align's past when looking at InMode's present.

Business Model

When I look at the business model of InMode, I see many similarities to Align. Although the comparison is far from apples to apples, the similarities are worth noting. Like InMode, Align is a B2B business that sells its technology to dentists. Their product directly benefits the dentists & orthodontists businesses. According to the Align transcripts: "85% of orthodontists surveyed agree that adopting the Align Digital Platform has made a huge difference in their practices. It provides ways to improve their efficiency and productivity. Align also provides any necessary training needed."

In its early years, Invisalign not only marketed to the dentists & orthodontists, but also to the public. Align spent money, time & effort to market their products while enjoying the free buzz given to them by media outlets at the same time. The company's brand awareness with the public & professionals encouraged dentists & orthodontists to start considering the product as their customers started to ask about Invisalign.

InMode is currently executing under a similar pattern. The company sells platforms and disposables directly to doctors and clinics. It also provides assistance with training and marketing to its customers while at the same time marketing the possibility of improved beauty without plastic surgery. Paula Abdul is currently one of the brand ambassadors.

Although the hardware of the products for the two companies could not be further apart, the feelings derived from those products are the identical: beauty & attractiveness. When your end product is beauty, everyone is a potential customer. Just like everyone smiles in a picture, every person on this planet will get older and a huge majority will get fatter. This is a major void that InMode can fill. The company offers a cheaper price and a less invasive procedure than plastic surgery with their bi-polar radio frequency assisted lipolysis technology, which I will discuss in greater detail below.

The Moat

Investing in a company with barrier to entry whether by law or superior product & service is key to sleeping well at night. From the consumer perspective, the moat was obvious in Align's case as they were the first clear aligner treatment. From a B2B perspective, the moat was just as obvious. According to a NY times article, half of the orthodontists in the nation had attended an Align seminar by August, 2000. This is impressive execution considering the company was founded only 3 years earlier and wouldn't have its IPO until the next year.

InMode has a strong moat as well. The gross margin and sales growth most clearly demonstrate their moat. InMode's most comparable competitor is Cutera (NASDAQ:CUTR) has a gross margin of 56% with 26% sales growth. But the true demonstration of the moat vs Cutera is the R&D expenses which can be seen in the chart below. Cutera consistently outspends InMode. Yet InMode is superior in its execution in both gross margin and sales growth.

Year	**2016**	**2017**	**2018**	**2019**	**2020**
InMode					
R&D Expense	2.5M	2.6M	4.2M	5.7M	9.0M
As a % of sales	10.64%	4.82%	4.17%	3.64%	3.12%
Cutera					
R&D Expense	11.2M	12.9M	14.4M	15.1M	16.4
As a % of sales	9.51%	8.50%	8.82%	8.30%	8.32

Source: Seeking Alpha

Other aesthetic companies also have trouble matching up to InMode. Anika Therapeutics (NASDAQ:ANIK) boasts a 64% gross margin, but only 9% sales growth. It should be noted that Anika only competes in the aesthetics sector through its dermatology department. Laser systems manufacturer EL.En. S.p.A (OTC:ELEAF) recorded 23% sale growth with 33% gross profit. Sientra, Inc (NASDAQ:SIEN) recorded a 30% sales growth with 53% gross margin.

InMode has two moats that cannot be immediately quantified. The first being the intellectual property held by the company. The RF technology used by InMode is patented. The second is the management. CEO Moshe Mizrahy, CTO Dr. Michael Kreindel, Mr. Shakil Lakhani – President of North America, CMO

Dr. Spero Theodorou and COO Alon Yaari COO all have the credentials, determination, discipline, & vision that can truly turn this small cap into a blue chip. In addition, Moshe and Dr. Michael Kreindel also founded Syneron Medical Ltd, which was later merged with Candela. I will discuss more about Moshe Mizrahy below. Syneron was a laser aesthetic company that later went their separate ways from Mizrahy. When I interviewed him, he did not give a reason why. But he did mention how his new technology at InMode is superior to all his competitors, including Syneron Candela.

InMode's Technology: The Growth Is Great, But What Do They Even Do?

CEO Moshe Mizrahy made it clear that InMode did not invent monopolar RF energy. Monopolar RF energy has been used in electro-surgical procedures for many years. "The application of RF energy causes controlled tissue heating with consequent cell protein denaturation and desiccation, which leads to cell death and tissue destruction." Since 1925 RF has been used in the medical field. Professionals use it to treat everything from cancer, to asthma, fibroids, and chronic pain.

While at Syneron, Syneron combined RF to IPL or Intense Pulsed Light and laser. Syneron under Mizrahy's management merged the IPL and/or laser with the RF to create a new technology. He referred to this as "a real success story" and they called it ELOS. But the new technology was not completely to his satisfaction since it cannot "penetrate deep" as he would have liked it to since it was. The ELOS was a laser-based technology. Because it was laser based, it was not able to "go deep enough to do facial & body reshaping."

InMode developed a new form of RF which is in between 2 electrodes called bipolar RF. This "in between the electrodes" is the key to InMode's technology and led to what Mizrahy called "RF assisted lipolysis" using "bipolar RF energy." The main difference between bipolar RF and monopolar RF is that in bipolar RF - the RF energy is applied between the 2 electrodes. You can read more about RFAL (radio frequency assisted lipolysis) & bipolar RF energy here.

Mizrahy claims that with RFAL technology, one electrode is inserted into the subdermal fat while the second electrode is on the skin, outside of the body. This allows the doctor to know exactly how much energy & temperature to apply to get the desired result. The technology can melt fat, suck it out, or reposition it, while simultaneously tightening the skin. This is huge since the alternative is plastic surgery. The operative word there being "surgery" which implies a medical team, a hospital setting, anesthetics etc. With InMode's technology, the minimally invasive procedure can give a similar result in the doctor's clinic, with less downtime, less adverse effects, and for far less cost.

For example, the cost of a tummy tuck is around $6,000 - $9,000 and can take weeks to recover. The BodyTite procedure from an InMode treatment can be done in 30-90 minutes on an outpatient basis for around 5,000. Some say "BodyTite is so non-invasive that it's more akin to a shot then a surgical procedure." Plastic surgery also involves cutting the skin after the surgery whereas the RF technology actually shrinks the skin instead of cutting it.

Has InMode expanded with their Technology?

The short answer is: Yes. Cornering the tummy tuck market is not the goal of Mizrahy. According to the CEO: "Whatever we can do with our minimally invasive technology, to take full operations from the hospitals, and bring it to the doctor's clinics, this is the mission statement of the company."

InMode currently has 9 workstations on its website. When I asked Mizrahy about the Envision Platform mentioned in the most recent transcripts he said there would be a soft launch by the end of the year. Envision's primary purpose would be ophthalmology. Envision would be the company's 10th workstation.

In my opinion, this level of execution is extremely impressive. I was extremely surprised to see an 85% gross margin with this many different areas of expertise. Mizrahy claims “would not start any development that I would not know from the drawing board that I can exercise an 85% gross margin. That’s a must for me. And basically, and you know, we’ve been showing it for almost 6 years that our gross margin is 85%.” The 85% gross margin is not the hope. It’s the expectation!

InMode's Technology: Looking Forward

Mizrahy claims the Empower platform that was just launched can treat a broad range of conditions related to women’s wellness therapies, including blood circulation, pain relief, pelvic floor weakness along with stress, urge and mixed urinary incontinence.

Stress urinary incontinence, or SUI, is a leakage of urine during physical activity, and a highly embarrassing problem to have. The current treatment for are behavioral remedies, vaginal inserts, or surgeries such as a Sling procedure or Retropubic Colposuspension. Currently a urethral sling procedure can take up to 6 weeks to recover. The catheter is removed after 10 days from a retropubic colposuspension. This is after spending 2-3 days in the hospital… if there are no complications of course.

Now you may be thinking what I was when I first l red about this: treating SUI is quite a leap from a tummy tuck, which is an elective. And that is exactly what InMode has done: it has leaped from elective beauty procedures to a necessary health problem. Once I saw that leap from elective to necessary, I imagined another leap coming in the next few years- a procedure being paid for by insurance instead of cash.

For example, currently retropubic colposuspension is covered by most insurance plans. As is several other conditions treated by the Empower workstation such as chronic pain and blood circulation. To my knowledge InMode currently does not have any platforms that are covered by insurance. So, the question is: what else can this bipolar RF treat? I asked Mr. Mizrahy about this. He replied “We may surprise you. And that’s the mission statement. That’s 10 years from today.”

RF Technology: Insurance Coverage?

I will start by saying I have very limited knowledge about the complexity of the health insurance industry & its reimbursements. On top of that, I have no sources or data whatsoever to suggest that InMode’s procedures will one day be covered by insurance. With that being said, InMode moving from elective preferences for beauty to necessary health problems that current ARE covered by insurance is worth the attention of every long-term alpha seeking investor.

If InMode can develop workstations that treat necessary health problems in addition to aesthetic electives, I see insurance coverage of the procedures as the logical next step. Insurance companies are always trying to save money- obviously. If one needs a discectomy for a herniated disc for example, insurance companies will generally “encourage” patients to “try” non-surgical options first such as an epidural injection before fully covering a surgery. A discectomy surgery would require an anesthesiologist, surgeon, multiple nurses or physician assistants, risk of infection which must be treated if acquired, etc. It makes sense that insurance companies would want to try an in-office, cheaper, outpatient option.

If InMode can position itself as a cheaper treatment option, the possibility of insurance picking up the tab is a very real possibility. If this should happen, doctors and clinics would be much more likely to benefit financially from having an InMode workstation as their customer base would increase. If they’re more likely to benefit, InMode would be a beneficiary with more sales.

InMode's Expansion

Currently, InMode operates on 6 continents. The most profitable one being North America in which InMode sells their products directly. According to Mizrahy, North America accounts for about 70% of its sales.

Intentionally, InMode is still a very young company. In Europe, Mizrahy says that Germany's sales will grow by 50%, & 75% in the UK. In Korea, sales are growing at about 100% from the same period last year. InMode has established itself in emerging markets as well with about $5M in sales for India. Australia accounted for $1.7M in sales per quarter, even with the COVID lockdowns.

For the People's Republic of China, sales equate to about $1.5M per quarter, or 6 million per year. It should be noted that only 3 workstations have been approved by the China's National Medical Products Administration commonly referred to as the CFDA. It should also be noted that InMode bought out the joint venture in China for better control of long term operations.

Risks

There are several risks to consider with InMode as an investment. There is no risk for potential demand for beauty. The current worldwide cosmetics market sits at approximately $380B & is expected to pass $460B by 2027. If cosmetics were a nation, it would be ranked #30 just behind the United Arab Emirates which has a GDP of $383B. That figure only includes cosmetics & not fashion, plastic surgery, fitness etc.

Although I think the risks are of low likelihood, they still must be mentioned. The first risk being adverse side effects from the bipolar RF treatments. Currently, the immediate side effects seem extremely temporary such as swelling and redness which go away in about a week. In terms of side effects, the risk would be long term side effects decades after using the product.

The second risk to the investment is typical of any investment. Short term risks in the marketplace are always to be considered. The stock price has had a beautiful run up to its current price point. A short-term correction for any reason is very possible. But as a long-term investor with a multiple year window, I put little emphasis on short term fluctuations.

Wrapping Up: Valuation & ROI

I would not classify InMode as a value stock. It's not overpriced, but it's not cheap either. While it is cheaper than some of its peers, the valuation depends on how far you believe the company will go. The company is a good bargain in my opinion if InMode remains in the aesthetic business only. However, if you believe in the probability of InMode's bipolar RF technology treating other areas of health, the company is extremely undervalued. Its TTM P/E sits at a moderate 45 as of this writing. Its $5B market Cap puts the company at a TTM P/S of about 17.

Cutera is InMode's most similar competitor in terms of its current product offerings. I feel for current valuation this Cutera can be used to compare InMode's valuation. Cutera as a TTM P/E of 121 and the TTM P/S sits at just under 5 as of this writing.

I feel the company has a great moat, strong balance sheet, great management, and fantastic growth. I feel Align is a great company to compare InMode to. Align's market cap of $57B puts its TTM P/S just under 17, identical to InMode. However, Align's TTM P/E sits at about 82. This higher valuation is understandable since Align has been selling for much longer and has become a blue chip stock over the last decade.

However, I feel that the market is not considering InMode's prospects for the future in its price. If InMode can prove that it can add necessary health treatments to its portfolio in addition to its aesthetic treatments, it would become a business of necessity instead of luxury. Below are the transcripts from my call with Mr Mizrahy.

Mizrahy Transcripts

Eric: I wanted to start off by asking you abate your experience at Syneron Medical. Mostly how it shaped your perspective. Also how is InMode superior in your opinion, besides the fact that InMode still has you?

Mizrahy: Syneron, I co-founded it in 2000. The idea was to try to develop a new technology which combine optical energy & RF. Radio frequency energy is 1 megahertz. It's a conducted RF. IPL & Laser energy cannot penetrate deep. Because Optical energy, as you probably know, is absorbed by the pigment of the skin. If you want to go deeper than that, you need to find what we call "Blind energy". And RF energy is a blind energy. So we added RF to IPL & Laser, and we came up with a technology called ELOS, electrical optical energy.

It really was a success story, But Syneron was more laser than anything else. You can do all kinds of treatments with laser, like hair removal, skin rejuvenation pigmentation etc. But you cannot go deep enough to do facial & body reshaping.

So basically, you cannot go to the sub-dermal fat. So in 2007, I decided that the laser industry was saturated. So Syneron became one of the leaders. At that time Syneron did something like 250-330M in revenue. So I decided that it's about time either to combine Syneron with other companies, try to create a critical mass. Eventually they merged with Candela as you probably know.

Dr, Michael Kreindel (co-founder of InMode) and I decided that it's about time to go and find another technology, and at that time, what was available for facial & body reshaping was only plastic surgery. I said at that time, if we can find something that can replace- well I don't want to say replace, because we are not actually replacing plastic surgery. We are doing something similar. We are getting, I would say, 90% surgical results without cutting the skin & without using the knife. At that time, and we said if we can find something, some kind of technology that would do that, then we would invent a new category. Which I call minimally invasive body & facial reshaping.

So instead of going into a face-lift, we're doing a FaceTite , and instead of doing tummy tuck we're doing a BodyTite. And the idea is to use bi polar RF energy & that's a technology that we have developed- you know we did not invent RF. RF is for electrical surgical procedures for many years. So we did not invent RF- What we did was invent new form of RF, which is in between 2 electrodes.

We know exactly how much energy to apply. We know exactly what temperature to apply to each side of the electrodes, we know how to measure any type of safety parameter that we want to measure because aesthetic is not an illness. Aesthetic is something that is for healthy people.

And the basic technology that we came up with was called RF assisted lipolysis which is where one is in the sub-dermal fat and the other is on the skin itself. And we can monitor the temperature inside, we wanted to get to 65 degrees (Centigrade), in order to melt the fat, and suck it out, or reposition it.

And on the skin itself, maintaining 43-44degrees would contract the collagen- and that's basically the Holy Grail for plastic surgery- to take the fat out, and contract the skin. The way that plastic surgery is doing it is by cutting the skin, taking the fat out, stretch the skin, then cut the extra skin. So we can do it with one incision point. That was the basic.

But you know trying to convince the FDA that this was safe was a major task. And although the company started in 2008-09 it took us a few years, until 2015 to get all the technology set up & to get some approval from the FDA & Europe, so we started the commercialization phase sometime in 2016, and we have been growing since then.

I mean during the years of course we developed other forms of bi polar RF like fractional, non-invasive, etc. But the basic technology was: RF assisted lipolysis.

And this year our target is to reach $315M, which is about 50+% growth from last year. And by the way, we managed to design the technology & the design of the system so that it enabled an 85% gross margin.

Now people are asking me why laser companies are not experiencing an 85% gross margin. Because of 2 reasons. #1- There is no IP anymore in the laser business. All the IP was basically gone, you know more than 20 years. I think there is 1 or 2 still patented but most others are gone. And therefore market is saturated with over-capacity, prices in the system went down, and the cost of manufacturing laser is not cheap.

We can sell system more than 50% higher than any laser. So because of the IP protection of our technology, because of the uniqueness of the technology, and therefore that's one of the reasons the gross margin is high.

Second, we manufacture the products. We are very efficient in our manufacturing process: we know how to manufacture, we know how to design the system throughout the lifecycle including service & maintenance & everything to make sure the cost will not be higher than 15%- cost of goods sold.

And the 85% gross margin enables us to spend as much as we want on R&D as much as we want n marketing, sales & everything, and to move fast to create position in the market. And that's what we have been doing, I would say, since 2016, in the last 5 years."

Eric: Okay, I wanted to ask you about the R&D. I noticed on the income statements the R&D expense is roughly about 3-4% of revenue over the last few years and it seems that you're keeping it around there. I wanted to ask: what do you think is the ROI, let's say, 5 years later, on that R&D? I understand this is the kind of thing that takes time. So what do you think the ROI is for the Empower platform?

Mizrahy: Okay first Eric, I think it's a mistake to measure R&D as percentage of sales. There's no reason to do it. We have the best R&D department. We have electrical engineers & software engineers, clinical, and we're doing it with 25 people. So in order for me to come up every year with 2 new platforms or 2 new devices or whatever, I don't need more than 25 people.

Now people have been asking me: if you have the money, why don't you spend twice as much and come up with 4 - 5 new systems every year. And the answer to that is you need to balance the market. If you come out with 5 new systems every year - you will cannibalize part of your portfolio too fast.

I believe now, we have a very good balance. We have 10 systems in our portfolio, all of them are still active. All of them are still selling. And if we come up with 2 systems every year, 1-2 systems every year, it's good enough. Because this is not a consumer product. And you have to look after regulation, you have to take care of training. You have to make sure that the doctors know what to do with the system. You have to make sure that your sales rep knows how to sell it. It's not file & forget.

Right now the ROI on our R&D on a 5 year time, I would say if we spend $2M per quarter, or 8M a year, and it will continue to be at that level, maybe + / - 5%, and we will continue to develop 2 systems annually, each one of those systems in a 5-7 year lifetime will be sold for roughly $100-$120M.

So let's assume it takes us 3 years to develop 2 platforms, $24 million investment and you get $240, if you want to measure it this way. But I believe that InMode will be the gold standard form women health & wellness.

So the question & the success here is the way to balance how you spend on R&D- but not percentages dollar wise. And how much you can sell of every system that you bring to the market. I can tell you from InMode's first development from about 10 years ago until now - we have not failed with any of our systems. I mean, we didn't bring any systems that we don't sell.

We do a lot of market & research before we start developing. We do a lot of focus group with doctors- we talk with doctors, We talk with doctors- to understand what are the unmet needs: How they're doing it today. What do they expect as far as results. And then we are able to better choose the technology we would like to develop. And we try to see how to come up with solutions based on your technologies, and based on the target that InMode has set for getting 85% gross margin. That's a must. We do not start any development that we are not sure, from the drawing board phase, that we can reach an 85% gross margin. That's a must for InMode. And basically, and you know, we've been showing it for almost 6 years that our gross margin is 85%.

Eric: Okay quick question: because that one answer you gave there answered around 3 other questions so that was pretty good. It looked like roughly 90% of the revenue was from sales, are those sales leased or are those bought out completely?

Mizrahy: No they are bought in full. We are not a financial company. They are buying, we don't give leasing. There are third party leasing companies, who give leasing to the doctors. The doctors can buy 3 ways. Leasing, cash, or loan from the bank. We recognize the revenue when the doctors buy, when we got the money. We are not giving any leasing. And therefore, we don't have any annuity or payment during the years. We recognize the revenue only once we got the money. And we got the money before we ship.

Eric: I read in June '20 that 1/3 of customers bought a second platform within 18 months. I haven't read about that recently. Has that improved or has it maintained?

Mizrahy: No it's maintained the same.

Eric: Can you tell me about the "packages" that motivate the doctors?

Mizrahy: What do you mean by packages? You mean bundles between systems?

Eric: No, I mean the incentives for the doctors in the COVID pandemic

Mizrahy: Oh okay, what we do we help the doctors to do marketing. We offer marketing & marketing assistance packages, for example: we have a 3d party co. called PGC that helps to arrange a seminar once they got the systems, all the doctors & clients. They bring them & we send somebody there to explain the system, the procedures. We want the Doctors to create some backlog, or some revenue stream once they start using the system.

We help the Doctor with other ways in marketing. We help them with social media, help them with marketing materials, we do marketing packages that will help the doctors to initiate. But even during

COVID, you know in 2020, we had 3 tough months- March April & May. All the doctors from around the world, not just in North America, closed their clinics did not operate & did not do any treatment.

And even with those 3 months that we were shut down- by the way, we made a very important decision at this time: not to lay off anybody. All the team, at the time about 350 employees worldwide, we continued to pay them salary, social benefits, & everything. And we told them that we don't want to lose them. I know other companies & other competitors that decided to cut costs by laying people off, and when everything went back to normal, sometime around June or July they lost all of their talents.

So we decided differently. I said that I had enough cash on my balance sheet & I want to keep all of InMode's employees, around the world. Not just in north America and that is exactly what we did.

But even with the 3 month shutdown, we managed to close 2020 with $15 million growth over 2019, even more than the budget. The target that I gave Wall Street in 2019 for 2020 was $190-196M and we did $206M in total revenue, which was really good.

And I can tell you something, people ask me how come, because all the other companies lost revenue. And that happened, for example people didn't want to go to hospitals because hospitals were associated with Covid. So they're better to do treatment in the Doctor's office, privately. People don't want to go to hospital, and would prefer to do hands free treatment in the doctor's office with all the social distancing.

Those kind of feature that we had built into the system helped us in 2020, and therefore 2020 for us was not a bad year. And in 2021 once everything, you know started back to normal, InMode's momentum was growing even faster.

Eric: Is there anything you can tell me about the joint venture in China?

The joint venture in China started something like 3 years ago. The government (in China) approached us, and asked us if we want to do a joint venture with them us being 51% and them being 49%, to establish a subsidiary in China. So from the begging, I told them, I was there, I told them that if we were going to do it, it would be a marketing, sales, and clinical study company and they agreed to it. They said they would invest $8M in the company.

But after last year, in 2020 we decided that the joint venture is limiting us. Why? Because in China you need to develop multi-level marketing & sales organization. Some through distributors, some through hospitals, and doing everything in one company is almost impossible. So we approached our partners and said that to the JV is not going to work well for us. Although we committed to work only through the joint venture, we need to develop a different organization here. They understood, and we bought them out. Now our activity in China is through a 100% owned subsidiary

Eric: How long do you think it'll take for China to pan out?

Mizrahy: We're already selling in China. By the way the limit in China is regulation. So it will take 2-3 years to approve or to clear a device or platform. Right now, out of the 9 or 10 systems inner portfolio, only 3 are allowed to be sold in China, only 3 passed the CFDA. I hope that net year I will have another 2 platforms to get clearance from the CFDA and we will expand operations. But right now the Chinese market is growing nicely for us. I mean, it didn't grow much during the COVID, but right now in 2021, we started in China very nicely.

Eric: What are the sales in China for the last 12 months? A rough estimate?

Mizrahy: I would say the sales in China for the last 12 months on average were $1.5M per quarter.

Eric: Wow that's a small amount. That's a long growth runway.

Mizrahy: Yes, that's not bad for starting. The last 12 months we did something like $6M in China. And it's growing.

Eric: And Europe. I have a feeling that Europe performance is going to be similar to the US, it's a similar western culture. Can you tell me any specifics about each country?

Mizrahy: In Europe we have 3 subsidiaries- fully owned subsidiaries for marketing & sales. One in France, one in the UK & one in Spain. And all the other countries we have exclusive distributors. As for Europe, I mean we can't market and sell in Europe like we do in the US because it's 27 countries and languages.

We are doing very well in the subsidiaries. We are doing very well in Russia this year in 2021. We are doing very well in some of the eastern bloc countries. "We are not doing well in Italy yet. Unfortunately I do not have exclusive yet in Italy. We started to do well in Germany in 2021 after COVID. You know Europe last year was tough. Italy was closed, and many other countries because of COVID did not perform well.

But this year Europe is doing well, I would say. But you have to remember, when we sell through distributors, we recognize only the transfer money. So it's not an apples to apples comparison the US. Because in North America we sell direct. When you sell direct, you get the full value. When you sell through the distributors you only recognize the wholesale price to the distributors. Because the distributors take upon themselves the marketing, the service, the sales the clinical etc.

So overall, 35% of our business is outside the US, with 65% in the US money wise. But system-wise it's almost 50/50. Because of the revenue recognition difference between North America & Europe & south America & others. By the way, we have 2 other subsidiaries: one in India & one in Australia, in addition to the one that now is fully owned in China.

Eric: How is India doing?

Mizrahy: Although there was Covid there, but as far as India is concerned we are doing well. We are selling close to $1M or $1.25M per quarter. And this has started recently.

Eric: Right: And how about Australia?

Mizrahy: Australia is better. Although it was completely locked down last year we did $1.7M per quarter. This year is also a little bit slow because of the Covid.

Eric: I wanted to ask this. With your technology, I know you have some proprietary technology. It seems like you really build the foundation before you build upon it, so I wanted to ask do you see any other applications health-wise with this? Maybe 10 years from now?

Mizrahy: Oh yeah. You know, *we may surprise you*. When we established this company, we decided that we would not stay in only one medical category. We decided that whatever we can do with our technology, to take full operations from the hospitals, and bring it to the clinics and the doctors- this is the base of the mission statement of our company.

To take full operations: the full anesthesia, with all the long down times, with hospitalization & everything, them from the hospitals to the doctor clinics. We started the aesthetic, with the plastic surgery, dermatology etc. Now we are opening the door to gynecology. Because the new platform, the Empower platform, can carry out several women's health indications.

Everything that we can do on other medical specialties with our technology & the new treatments- I have to say, we have to prove them clinically. We have the ideas as to how to do it. And that's the mission statement. That's 10 years from today.

Eric: Wow, okay. And is there anything you can tell me about Envision? I know it's supposed to start later this year.

Mizrahy: Envision we will do a soft launch sometime toward the end of the year. And maybe a full scale launch sometime next year. Envision is a combination of aesthetic & dry eye treatment. For ophthalmology. And we're going to have 2 versions. One for ophthalmology with IPL for inflammation around the eyes. And one for optometrists without IPL because optometrists in the US cannot use optical energy, they can only use RF energy.

So it will be a combination of treatment of wrinkles with our Morpheus device, dry eye combined between IPL and bipolar RF and doctors who want to do an eye-lid operation will be able to do it with our AccuTite. But, I would say this, unlike Empower, which is for OBGYN, gynecology & urogynecology, the Envision is for doctors who want to do a combination of ophthalmological and aesthetic treatments.

Eric: Got it. And I just wanted to clarify: The ophthalmology, you're not talking about correcting vision right?

Mizrahy: Yes, correct.

	This article was written by **Eric Groovenhoff** My name is Eric Groovenhoff. I invest In Common Stock for Long-Term Horizon. I look for explosive growth wh... more Long Only, Growth My name is Eric Groovenhoff. I invest In Common Stock for Long-Term Horizon. I look for explosive growth while attempting to minimize risks. I examine the fundamentals, financials, & intangibles of potential growth stocks. I create my own spreadsheets and perform my own research. Although new to writing, I have been picking Stocks successfully for several years. I take Warren Buffett's advice and buy with the assumption the Market will be closed for several years the day after I buy it. However, I consider myself an offensive investor. My goal isn't to buy Amazon at $1T, my goal is to buy Amazon at $60B. In order to do this, I must have good knowledge of business & economic history as well as a forward looking vision. Based on what I've seen, I try to ask myself "what void needs to be filled, and what fundamentally sound company can fill it." **Disclosure:** I/we have a beneficial long position in the shares of INMD either through stock ownership, options, or other derivatives. I wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it (other than from Seeking Alpha). I have no business relationship with any company whose stock is mentioned in this article.