

Inogen Inc. (INGN)

\$38.55 (As of 06/01/20)

Price Target (6-12 Months): **\$40.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 01/30/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: C

Growth: F

Momentum: F

Summary

Inogen ended the first quarter on a strong note, with earnings and revenues beating estimates. The company reported growth in business-to-business international and domestic revenues in the quarter. Inogen expects the business-to-business arm to be a strong contributor to revenues in 2020, thanks to the Tidal Assist Ventilator. Strong prospects in the POC space continue to buoy optimism. On the flip side, significant contraction in gross margin adds to the woes. Also, decline in direct-to-consumer revenues during the quarter is a concern. The company also saw a decline in Sales and Rental segment revenues. Reflective of these, the company has underperformed its industry over the past year.

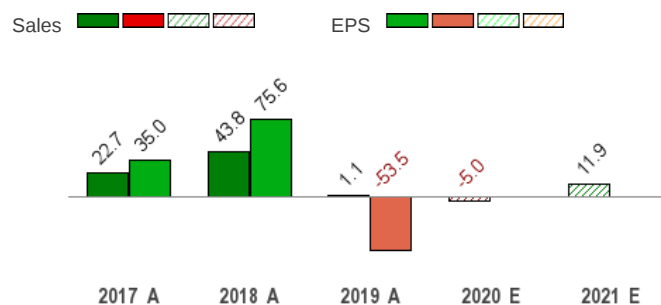
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$76.89 - \$31.21
20 Day Average Volume (sh)	408,705
Market Cap	\$849.9 M
YTD Price Change	-43.6%
Beta	0.74
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Instruments
Zacks Industry Rank	Top 31% (79 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	36.4%
Last Sales Surprise	6.7%
EPS F1 Est- 4 week change	-110.6%
Expected Report Date	08/05/2020
Earnings ESP	0.0%
P/E TTM	50.7
P/E F1	NA
PEG F1	NA
P/S TTM	2.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	88 E	96 E	100 E	105 E	385 E
2020	88 A	81 E	89 E	86 E	344 E
2019	90 A	101 A	92 A	79 A	362 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.13 E	\$0.04 E	\$0.22 E	\$0.14 E	\$0.58 E
2020	-\$0.07 A	-\$0.06 E	\$0.09 E	-\$0.03 E	-\$0.07 E
2019	\$0.24 A	\$0.45 A	\$0.31 A	\$0.07 A	\$1.07 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/01/2020. The reports text is as of 06/02/2020.

Overview

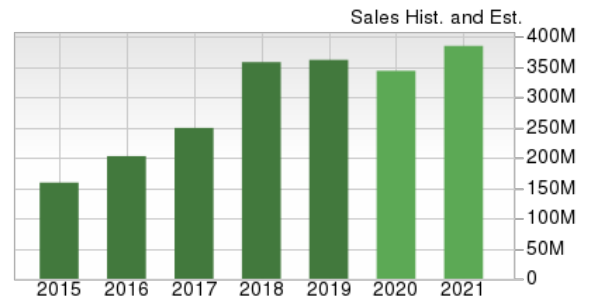
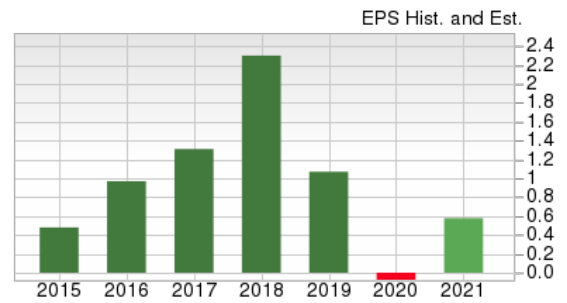
Goleta, CA-based Inogen Inc. develops, manufactures and markets portable oxygen concentrators (POC). POCs are used by patients who suffer from chronic respiratory conditions and need long-term oxygen therapy. POCs concentrate the air around the patient, filter out the nitrogen and other unwanted substances and deliver oxygen.

Inogen's flagship portable devices Inogen One G3 and G2 weigh approximately 4.8 and 7.0 pounds and have up to 4.5 and 5 hours of battery life, respectively. Being portable, these devices can be charged anywhere. Inogen began to follow a Direct-to-Consumer strategy post its acquisition of Comfort Life Medical Supply, LLC in 2009.

2019 at a Glance

Revenues were \$361.9 million in 2019, rising 1.1%.

Revenues at the Sales segment amounted to \$340.5 million (94.1% of net sales), while Rental revenues were \$21.4 million (5.9%).



Reasons To Buy:

▲ **Unique Direct-to-Customer Business Model:** Despite a soft show in the first quarter of 2020, Inogen's direct-to-customer business model has lent it a leading position in the oxygen therapy market. In fact, management expects direct-to-consumer to be its fastest growing channel in 2020. The model gives companies an opportunity to build a unique brand-relationship, directly with customers. The company has recently signed a lease for its expansion site in Ohio to accelerate growth in domestic direct-to-consumer sales channel. The growing direct-to-customer sales and marketing efforts help in increasing awareness among patients. Growth in physician referrals in this segment is also expected to boost the top line over the long term.

▲ **Europe in Focus:** Inogen is optimistic about revenue generation in Europe from the first half of 2020. The company expects tender activity to improve in the region and its partners to continue to adopt portable oxygen concentrators. In fact, management expects to see a large long-term opportunity ahead, courtesy of the market transitions from tank and liquid oxygen systems to non-delivery solutions.

Further, in support of its European customers, Inogen began the production of its Inogen One G3 concentrators last year using a contract manufacturer, Foxconn, located in the Czech Republic. Inogen also expects Foxconn to produce the vast majority of the Inogen One G3 concentrators required to support the European demand. Also, Inogen plans to start manufacturing the recently-launched Inogen One G5 in Czech Republic in the first half of 2020 for European customers.

Sluggish sales in Europe due to continued tender uncertainty in certain markets of the region were partially offset by increased demand pertaining to the COVID-19 PHE in the first quarter. The pending tenders in the United Kingdom are on hold due to the COVID-19 PHE.

▲ **Product Portfolio Solid:** Inogen's expanding product portfolio is a key catalyst. The company provides oxygen concentrator solutions for portable and stationary use. Inogen's flagship product, One G4 is a single-solution portable oxygen concentrator (POC). Recently, the company launched the Inogen One G5 in the domestic business-to-business arm. In fact, the company applied for CE marking for the Inogen One G5 and has begun shipments to international customers.

Apart from this, Inogen One G3 portable oxygen concentrator brings mobility and independence to oxygen therapy users. Inogen At Home is aptly formulated for patients who need oxygen therapy during sleep. In recent times, Inogen officially launched the Inogen One G5 in its direct-to-consumer channel.

The 5.7% increase in domestic business-to-business sales during the year was primarily led by increased demand from its home medical equipment provider partners for oxygen concentrators in response to the COVID-19 PHE. The company returned to normal production levels of the Inogen One G5 midway through the first quarter of 2020.

In the first quarter, the company witnessed an increase in product sales mix toward Inogen One G5, which remained higher priced than Inogen One G3.

Management also confirmed Inogen's plan of incorporating the Tidal Assist Ventilator directly into the Inogen One Portable Oxygen Concentrators and making the SideKick TAV product compatible with the Inogen At-Home Stationary Concentrator.

▲ **High Prospects in the POC Space & LTOT Market:** Portable Oxygen Concentrator or POCs solve most of the problems and limitations associated with conventional oxygen therapy (known as delivery model) that involves stationary oxygen concentrator systems for use in the home and oxygen tanks or cylinders for mobile use. POCs provide unlimited oxygen supply anywhere, thereby enhancing patient independence and mobility.

Moreover, POCs are less costly in comparison to traditional therapies as these systems do not require physical infrastructure and also because of the service intensity of the delivery model. We believe that the inherent benefits of Inogen One systems against the delivery model will help the company penetrate the Long-term Oxygen Therapy (LTOT) market much faster than its competitors. Long-term Oxygen Therapy (LTOT) increases survival and improves the quality of life for hypoxemic (a condition in which patients have insufficient oxygen in the blood) patients with chronic obstructive pulmonary disease (COPD).

▲ **Stable Liquidity Position:** Inogen is well capitalized with cash and cash equivalents as of Mar 31, 2020, amounting to \$208 million, slightly down from \$209 million sequentially. However, the company's long-term debt came at \$9 million, up from \$5 million sequentially. Moreover, the company's current debt level came in at \$1.9 million, down from \$2 million on a sequential basis. We can see here that both the long-term and the current debt levels are considerably lower than the cash and cash equivalent level indicating strong solvency. This is good news in terms of the company's solvency level as, at least during the year of economic downturn, the company has sufficient cash for debt repayment.

An expanding LTOT market, inherent benefits of POCs over traditional delivery model, direct-to-customer business model, underpenetrated international markets and expanding product portfolio are key growth catalysts.

Reasons To Sell:

- ▼ **Shares Lack Luster:** Over the past year, shares of Inogen have plunged 39.2% against the industry's 13.9% rise. Direct-to-consumer revenues fell 8.9% year over year in the first quarter. This was due to an approximate 15% reduction in average sales representative headcount compared to the year-ago quarter. Foreign exchange woes also plague the company. Additionally, owing to the coronavirus pandemic, the stock prices have been largely affected.
- ▼ **Q1 Debacle:** In the first quarter of 2020, Inogen saw a 1.9% drop in total revenues. The company saw softness in segmental revenues. Revenues at the Sales segment fell 2% on a year-over-year basis. Rental revenues were down 0.7% year over year.
- ▼ **Headwinds Regarding POC Adoption:** In the LTOT market, POC adoption continues to face significant headwinds. This is primarily due to the lack of awareness among consumers about the benefits of POC devices, higher upfront cost of these devices as compared to traditional delivery model and reluctance of home equipment medical providers to support POC adoption. Lack of awareness ensures higher cost related to sales & marketing that can impact profits. We believe that these headwinds related to POC adoption are major concerns that can hurt Inogen's growth prospects over the long haul.
- ▼ **For-ex Woes:** Inogen generates a significant portion of its revenues from the International market. Management expects international revenues to remain lumpy owing to the timing and size of the distributor. We also expect adverse foreign currency exchange rates to impede revenue growth in the near term owing to the strengthening of the U.S. dollar as against the Euro and other foreign currencies.

Low POC adoption, intensifying competition, reimbursement cuts and foreign exchange headwinds are major concerns. Declining rental revenues also adds to our woes.

Last Earnings Report

Inogen's Q1 Earnings and Revenues Beat Estimates

Inogen reported first-quarter 2020 loss per share of 7 cents, which was narrower than the Zacks Consensus Estimate of a loss of 10 cents. This compares to earnings of 24 cents in the year-ago quarter.

Revenues came in at \$88.5 million, which surpassed the Zacks Consensus Estimate by 6.7%. On a year-over-year basis, the top line dropped 1.9%.

Quarter Ending **03/2020**

Report Date	May 05, 2020
Sales Surprise	6.69%
EPS Surprise	36.36%
Quarterly EPS	-0.07
Annual EPS (TTM)	0.76

Segmental Details

Revenues at the Sales segment amounted to \$83.1 million in the quarter under review, down 2% on a year-over-year basis.

Rental revenues grossed \$5.34 million, down 0.7% year over year.

Revenues by Region & Category

Business-to-business revenues in the United States amounted to \$27.6 million, up 5.7% on a year-over-year basis. Per management, this increase was primarily driven by increased home medical equipment provider demand.

Internationally, this segment recorded revenues of \$20 million, up 1.4% year over year and 3.6% at constant currency. Per management, the increase was primarily led by higher demand in Canada and Australia.

Direct-to-consumer revenues fell 8.9% year over year to \$35.5 million in the quarter. This was due to an approximate 15% reduction in average sales representative headcount compared to the year-ago quarter.

Margins

In the first quarter, gross profit was \$38.4 million, down 13.6% year over year. Gross margin came in at 43.4%, down a significant 588 basis points (bps).

Loss from operations in the quarter was \$2.2 million against the year-ago quarter's operating profit of \$4.9 million.

Guidance

Due to uncertainty around impact of the COVID-19 on its business, the company has withdrawn its 2020 guidance, issued on Feb 25.

Valuation

Inogen's shares are down 43.5% and 39.2% in the year-to-date and trailing 12-month periods, respectively. Stocks in the Zacks sub-industry and Zacks Medical Market are up 3.4% and down 0.1%, in the year to date period, respectively. Over the past year, the Zacks sub-industry and sector are up 13.8% and 7.1%, respectively.

The S&P 500 index is down 5.4% in the year-to-date period and up 11% in the past year.

The stock is currently trading at 2.4X Forward 12-months sales, which compares to 3.9X for the Zacks sub-industry, 2.8X for the Zacks sector and 3.4X for the S&P 500 index.

Over the past five years, the stock has traded as high as 14.9X and as low as 1.8X, with a 5-year median of 5.5X.

Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$40 price target reflects 2.5X forward 12-months sales.

The table below shows summary valuation data for INGN.

Valuation Multiples - INGN					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	2.35	3.85	2.81	3.43
	5-Year High	14.90	3.85	3.75	3.44
	5-Year Low	1.82	2.18	2.21	2.53
	5-Year Median	5.50	2.60	2.92	3.02
P/B TTM	Current	2.45	3.63	4.28	4.17
	5-Year High	22.49	4.23	5.07	4.56
	5-Year Low	2.08	2.48	2.93	2.83
	5-Year Median	7.45	3.37	4.29	3.65

As of 06/01/2020

Industry Analysis Zacks Industry Rank: Top 31% (79 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Accuray Incorporated (ARRAY)	Outperform	2
AngioDynamics, Inc. (ANGO)	Neutral	3
CryoLife, Inc. (CRY)	Neutral	4
Luminex Corporation (LMNX)	Neutral	1
Nevro Corp. (NVRO)	Neutral	3
ORTHOFIX MEDICAL INC. (OFIX)	Neutral	3
RTI Surgical, Inc. (RTIX)	Neutral	3
Tandem Diabetes Care, Inc. (TNDM)	Neutral	3

Industry Comparison Industry: Medical - Instruments				Industry Peers		
	INGN	X Industry	S&P 500	ANGO	LMNX	TNDM
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	1	3
VGM Score	F	-	-	D	F	F
Market Cap	849.93 M	119.31 M	21.80 B	390.55 M	1.45 B	5.09 B
# of Analysts	5	2	14	2	3	5
Dividend Yield	0.00%	0.00%	1.97%	0.00%	1.14%	0.00%
Value Score	C	-	-	C	D	F
Cash/Price	0.25	0.09	0.06	0.07	0.03	0.03
EV/EBITDA	17.08	-1.16	12.62	23.21	74.78	-260.24
PEG Ratio	NA	3.75	2.92	NA	NA	NA
Price/Book (P/B)	2.45	3.31	2.98	0.64	3.12	24.57
Price/Cash Flow (P/CF)	22.51	22.64	11.85	6.72	74.06	NA
P/E (F1)	NA	45.27	21.45	66.97	182.60	NA
Price/Sales (P/S)	2.36	3.53	2.30	1.29	4.23	12.91
Earnings Yield	-0.18%	-3.70%	4.48%	1.54%	0.54%	-0.66%
Debt/Equity	0.03	0.10	0.76	0.02	0.04	0.09
Cash Flow (\$/share)	1.71	-0.13	6.96	1.54	0.43	-0.13
Growth Score	F	-	-	F	F	F
Hist. EPS Growth (3-5 yrs)	32.40%	13.54%	10.87%	3.19%	-21.53%	NA
Proj. EPS Growth (F1/F0)	-106.92%	0.22%	-10.79%	47.62%	182.54%	-32.38%
Curr. Cash Flow Growth	-40.33%	4.81%	5.46%	13.17%	-57.32%	-93.28%
Hist. Cash Flow Growth (3-5 yrs)	15.10%	11.44%	8.55%	3.22%	-15.21%	13.65%
Current Ratio	5.43	2.65	1.29	2.65	4.00	2.82
Debt/Capital	2.56%	14.04%	44.75%	2.30%	3.49%	8.62%
Net Margin	3.90%	-14.56%	10.59%	16.27%	-1.81%	-4.22%
Return on Equity	4.93%	-14.83%	16.29%	2.49%	-1.25%	-9.39%
Sales/Assets	0.82	0.58	0.55	0.41	0.63	1.30
Proj. Sales Growth (F1/F0)	-5.01%	0.00%	-2.67%	4.77%	14.56%	14.97%
Momentum Score	F	-	-	A	C	C
Daily Price Chg	1.45%	0.21%	0.80%	1.66%	1.57%	1.85%
1 Week Price Chg	3.26%	0.30%	4.60%	-7.94%	-1.05%	-5.23%
4 Week Price Chg	-23.30%	5.97%	8.94%	10.31%	-11.79%	3.12%
12 Week Price Chg	-10.35%	6.36%	8.65%	-6.99%	16.32%	20.64%
52 Week Price Chg	-39.15%	-14.34%	0.08%	-44.73%	50.64%	23.58%
20 Day Average Volume	408,705	209,217	2,465,511	243,509	955,685	1,063,560
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-110.60%	0.00%	-0.27%	0.00%	116.67%	-3.63%
(F1) EPS Est 12 week change	-109.87%	-16.87%	-16.20%	-40.39%	61.24%	-3,736.36%
(Q1) EPS Est Mthly Chg	-119.14%	0.00%	-0.83%	0.00%	250.00%	-4.37%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	F
Momentum Score	F
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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