

## Inogen Inc. (INGN)

**\$44.27** (As of 01/31/20)

Price Target (6-12 Months): **\$38.00**

Long Term: 6-12 Months

**Zacks Recommendation:** Underperform

(Since: 01/30/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**5-Strong Sell**

Zacks Style Scores:

VGM:F

Value: D

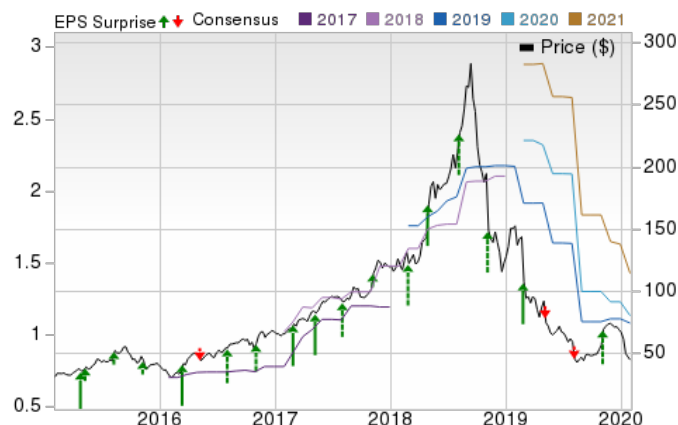
Growth: D

Momentum: F

## Summary

Over the past six months, the shares of Inogen has underperformed the industry it belongs to. Business-to-business international and domestic revenues fell year over year in the quarter. Notably, international revenues were impacted by lower orders in Great Britain, Spain and France. Also, operating and gross margin declined in the quarter. The stock's valuation looks dull at the moment. However, the company's direct-to-consumer unit performed well in the quarter, driven by higher sales representative productivity. Inogen has issued a solid guidance for 2020 and has also kept its 2019 guidance intact. Also, management at Inogen continues to see tremendous prospects in Europe. The launch of Inogen One G5 is expected to lend the company a competitive edge. Moreover, Inogen put up a strong performance in the third quarter.

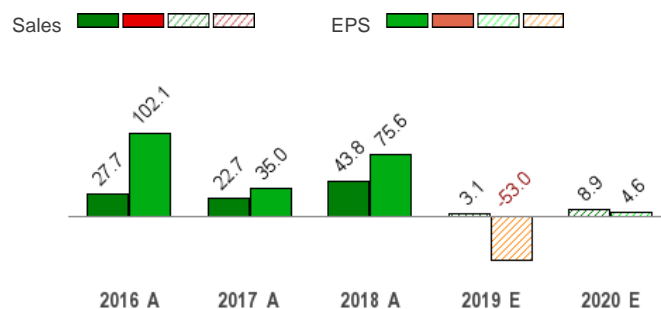
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	\$155.75 - \$41.19
20 Day Average Volume (sh)	383,596
Market Cap	\$973.9 M
YTD Price Change	-35.2%
Beta	1.63
Dividend / Div Yld	\$0.00 / 0.0%
Industry	<a href="#">Medical - Instruments</a>
Zacks Industry Rank	Top 44% (112 out of 255)

## Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	34.8%
Last Sales Surprise	0.4%
EPS F1 Est- 4 week change	-7.8%
Expected Report Date	02/25/2020
Earnings ESP	-24.5%
P/E TTM	30.7
P/E F1	39.2
PEG F1	2.5
P/S TTM	2.6

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	91 E	106 E	103 E	98 E	402 E
2019	90 A	101 A	92 A	90 E	369 E
2018	79 A	97 A	95 A	87 A	358 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.15 E	\$0.35 E	\$0.32 E	\$0.26 E	\$1.13 E
2019	\$0.24 A	\$0.45 A	\$0.31 A	\$0.11 E	\$1.08 E
2018	\$0.48 A	\$0.65 A	\$0.73 A	\$0.44 A	\$2.30 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 01/31/2020. The reports text is as of 02/03/2020.

## Overview

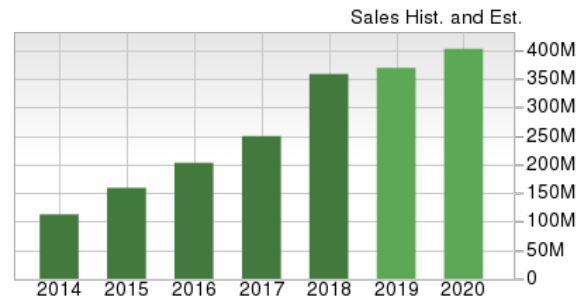
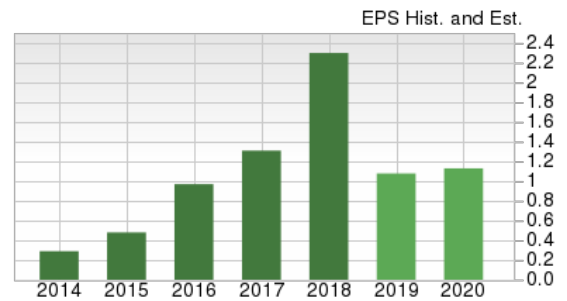
Goleta, CA-based Inogen Inc. develops, manufactures and markets portable oxygen concentrators (POC). POCs are used by patients who suffer from chronic respiratory conditions and need long-term oxygen therapy. POCs concentrate the air around the patient, filter out the nitrogen and other unwanted substances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

### 2018 at a Glance

Full-year revenues totaled \$358.1 million, up 43.6% from 2017.

2018 Sales revenues totaled \$336 million (93.8% of net sales) while Rental revenues were \$22.1 million (6.2%).



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## Reasons To Sell:

- ▼ **Shares Lack Luster:** Over the past six months, shares of Inogen have lost 23.8%, against the industry's 8.5% rise. The current level also compares unfavorably with the S&P 500 index's 14% rally.

Segmental performance was weak and international revenues were soft in the third quarter. Foreign exchange woes also plague the company.

- ▼ **Valuation Looks Dull:** Inogen is currently trading at a forward P/E (F12M basis) ratio of 38.3 over the past year, which compares with 32.7 and 18.5 for the industry and the S&P 500 index respectively.

- ▼ **Q3 Debacle:** In the third quarter of 2019, Inogen saw softness in segmental revenues. The top line fell year over year as revenues at the Sales segment declined 3.7% and rental revenues contracted 3.8%. Additionally, business-to-business revenues in the United States declined 0.4%. Per management, the downside was caused by decline in orders from one large national provider.

- ▼ **Global Problems:** In the third quarter, Inogen's international business-to-business revenues fell 12.5% year over year and 10.2% at constant currency. Per management, the decline was caused by a slowdown of orders in Great Britain and Spain due to tender uncertainty, capital expenditure constraints and lower orders in France.

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

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## Risks

- **Unique Direct-to-Customer Business Model:** Inogen's direct-to-customer business model has lent it a leading position in the oxygen therapy market. The direct-to-consumer model gives companies an opportunity to build a unique brand-relationship, directly with customers. The company 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.

Notably, direct-to-consumer revenues in the United States rose 1.4% year over year to \$37.8 million in the quarter under review on higher sales representative productivity.

- **View Strong:** For 2020, Inogen expects total revenues in the range of \$410-\$415 million, which suggests 10.1-11.4% growth over the 2019 guidance mid-point of \$372.5 million. The company expects rental revenues to rise modestly on a year-over-year basis.

Inogen forecasts 2020 net income in the range of \$25-\$27 million, which calls for growth of 4.2-12.5%.

For 2019, Inogen has kept its guidance intact.

The company expects revenues in the range of \$370-\$375 million, indicating year-over-year growth of 3.3-4.7%.

Net income guidance for 2019 is expected in the band of \$23-\$25 million. Operating income guidance is \$26-\$28 million.

- **Europe in Focus:** Inogen confirmed that its outlook for European sales in 2018 remains optimistic. The company expects tender activity to increase 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. In 2018, Inogen 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.

- **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). Apart from One G4, Inogen One G3 portable oxygen concentrator brings mobility and independence to oxygen therapy users. Coming to the next important platform in the company's product portfolio, 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 company further expects to roll out Inogen One G5 by the end of 2019.

In recent times, management confirmed the 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.

In the third quarter of 2019, 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 in the fourth quarter of 2019.

- **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).

- **Solid Global Opportunities:** We believe that an underpenetrated international market and favorable reimbursement scenario in countries like Germany, France and the U.K. present significant growth opportunities for Inogen. Germany is estimated to be the second largest market in Europe for medical oxygen systems. The company plans to continue to expand its presence in other countries as additional opportunities crop up. Moreover, growing demand for LTOT in the Asia-Pacific region is a major positive for the company.
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## Last Earnings Report

### Inogen's Q3 Earnings Beat Estimates, 2019 Guidance Intact

Inogen reported third-quarter 2019 earnings per share of 31 cents, which beat the Zacks Consensus Estimate of 23 cents. The bottom line also plunged 57.5% year over year.

Revenues of the company came in at \$91.8 million, which surpassed the Zacks Consensus Estimate of \$91.4 million. On a year-over-year basis, the top line dropped 3.7%.

#### Segmental Details

Revenues in the Sales segment amounted to \$86.4 million in the quarter under review, down 3.72% on a year-over-year basis.

Rental revenues totaled \$5.4 million, down 3.8% year over year.

#### Revenues by Region and Category

Business-to-business revenues in the United States amounted to \$30.1 million, down 0.4% on a year-over-year basis. Per management, the downside was caused by decline in orders from one large national provider.

Internationally, this segment recorded revenues of \$18.5 million, down 12.5% year over year and 10.2% at constant currency. Per management, the decline was caused by a slowdown of orders in Great Britain and Spain due to tender uncertainty, capital expenditure constraints, and softness of orders in France.

Direct-to-consumer revenues rose 1.4% year over year to \$37.8 million in the quarter under review on higher sales representative productivity.

#### Margins

In the third quarter, gross profit was \$47 million, down 11.5% year over year. Gross margin came in at 51.2%, down significantly by 420 basis points (bps).

Operating income was \$8.1 million, down 22% year over year. Operating margin came in at 8.8% of net revenues, down 200 bps from the prior-year quarter's figure.

#### Guidance

For 2020, Inogen expects total revenues in the range of \$410-\$415 million, which suggests 10.1-11.4% growth over the 2019 guidance mid-point of \$372.5 million. The company expects rental revenues to be up modestly on a year-over-year basis.

Inogen forecasts 2020 net income in the range of \$25-\$27 million, which calls for growth of 4.2-12.5%.

For 2019, Inogen has kept its guidance intact.

The company expects revenues in the range of \$370-\$375 million, calling for year-over-year growth of 3.3-4.7%.

2019 net income guidance range is expected in the band of \$23-\$25 million. Operating income guidance is in the range of \$26-\$28 million.

Quarter Ending **09/2019**

Report Date	Nov 05, 2019
Sales Surprise	0.42%
EPS Surprise	34.78%
Quarterly EPS	0.31
Annual EPS (TTM)	1.44

## Valuation

Inogen's shares are down 35.2% in the year-to-date period and down 70.8% the trailing 12-month periods. Stocks in the Zacks sub-industry are down 1.6% in the year-to-date period and down 2.1% the past year. The Zacks Medical sector is up 8.5% in the year-to-date period and down 0.4% the past year.

The S&P 500 index is up 0.1% in the year-to-date period and up 17.5% in the past year.

The stock is currently trading at 2.4X Forward 12-months sales, which compares to 3.5X 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 2.1X, with a 5-year median of 5.5X.

Our Underperform recommendation indicates that the stock will perform below the market. Our \$38 price target reflects 2.1X 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	2.40	3.51	2.76	3.43
	5-Year High	14.90	3.60	3.82	3.43
	5-Year Low	2.08	2.17	2.43	2.54
	5-Year Median	5.50	2.52	2.94	3.00
P/B TTM	Current	2.84	4.03	4.42	4.41
	5-Year High	22.49	4.27	5.02	4.55
	5-Year Low	2.75	2.54	3.43	2.85
	5-Year Median	7.45	3.31	4.29	3.62

As of 1/31/2020

## Industry Analysis Zacks Industry Rank: Top 44% (112 out of 255)



## Top Peers

Intuitive Surgical, Inc. (ISRG)	Outperform
Align Technology, Inc. (ALGN)	Neutral
Establishment Labs Holdings Inc. (ESTA)	Neutral
Edwards Lifesciences Corporation (EW)	Neutral
Hill-Rom Holdings, Inc. (HRC)	Neutral
Invacare Corporation (IVC)	Neutral
ResMed Inc. (RMD)	Neutral
AVANOS MEDICAL, INC. (AVNS)	Underperform

Industry Comparison Industry: Medical - Instruments				Industry Peers		
	INGN Underperform	X Industry	S&P 500	HRC Neutral	IVC Neutral	RMD Neutral
<b>VGM Score</b>	<b>F</b>	-	-	<b>B</b>	<b>B</b>	<b>C</b>
Market Cap	973.85 M	108.20 M	23.55 B	7.13 B	258.82 M	22.86 B
# of Analysts	5	2	13	6	2	7
Dividend Yield	0.00%	0.00%	1.81%	0.79%	0.65%	0.98%
<b>Value Score</b>	<b>D</b>	-	-	<b>B</b>	<b>B</b>	<b>D</b>
Cash/Price	0.20	0.09	0.04	0.03	0.29	0.01
EV/EBITDA	15.04	-0.59	13.97	17.38	18.26	33.95
PEG Ratio	2.58	2.59	1.97	1.73	NA	3.34
Price/Book (P/B)	2.83	4.39	3.21	4.40	0.92	10.80
Price/Cash Flow (P/CF)	14.97	23.15	13.36	13.04	NA	33.73
P/E (F1)	40.05	29.86	18.42	19.20	NA	38.88
Price/Sales (P/S)	2.64	3.77	2.60	2.45	0.28	8.21
Earnings Yield	2.55%	-0.59%	5.43%	5.21%	-0.65%	2.57%
Debt/Equity	0.01	0.10	0.72	1.09	0.83	0.60
Cash Flow (\$/share)	2.96	-0.06	6.92	8.17	-0.38	4.71
<b>Growth Score</b>	<b>D</b>	-	-	<b>C</b>	<b>A</b>	<b>C</b>
Hist. EPS Growth (3-5 yrs)	51.65%	13.25%	10.68%	18.70%	NA	10.51%
Proj. EPS Growth (F1/F0)	4.82%	20.39%	7.59%	9.19%	95.59%	12.32%
Curr. Cash Flow Growth	54.44%	9.84%	10.81%	3.86%	-62.55%	7.87%
Hist. Cash Flow Growth (3-5 yrs)	39.00%	8.78%	8.78%	18.02%	NA	9.87%
Current Ratio	5.79	2.68	1.22	1.52	1.76	2.11
Debt/Capital	1.47%	17.32%	42.99%	52.18%	45.40%	37.57%
Net Margin	8.76%	-15.15%	11.69%	5.15%	-3.82%	16.34%
Return on Equity	9.89%	-17.95%	17.33%	21.87%	-9.30%	27.86%
Sales/Assets	0.92	0.60	0.55	0.63	1.07	0.68
Proj. Sales Growth (F1/F0)	9.04%	10.75%	4.12%	1.01%	1.50%	10.77%
<b>Momentum Score</b>	<b>F</b>	-	-	<b>C</b>	<b>D</b>	<b>A</b>
Daily Price Chg	-2.23%	-0.80%	-1.98%	-2.05%	-5.76%	-3.91%
1 Week Price Chg	-5.42%	0.00%	-1.09%	-5.28%	-3.05%	1.13%
4 Week Price Chg	-34.50%	-1.54%	-2.11%	-6.37%	-16.69%	1.83%
12 Week Price Chg	-35.89%	1.31%	2.15%	3.10%	-31.71%	11.81%
52 Week Price Chg	-70.72%	-12.36%	14.15%	6.47%	49.61%	67.04%
20 Day Average Volume	383,596	123,798	1,808,632	472,123	409,461	448,981
(F1) EPS Est 1 week change	-4.56%	0.00%	0.00%	0.27%	0.00%	-0.73%
(F1) EPS Est 4 week change	-7.83%	0.00%	0.00%	0.27%	0.00%	-0.73%
(F1) EPS Est 12 week change	-12.97%	0.00%	-0.09%	0.79%	-200.00%	-0.67%
(Q1) EPS Est Mthly Chg	-27.50%	0.00%	0.00%	-6.85%	NA	0.00%

## 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	D
Growth Score	D
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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