

Inogen Inc. (INGN)

\$43.85 (As of 03/13/20)

Price Target (6-12 Months): **\$46.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/10/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: C

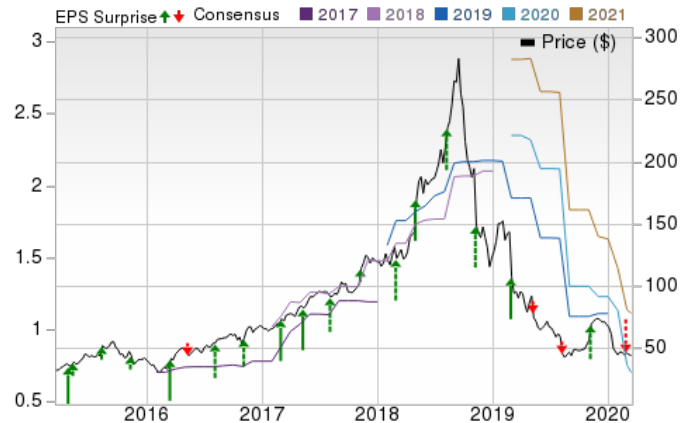
Growth: D

Momentum: F

Summary

Inogen ended the fourth quarter on a dismal note. Nonetheless, the company expects the business-to-business arm to be a strong contributor to revenues in 2020, thanks to the Tidal Assist Ventilator. The company also expects rental revenues to grow modestly in 2020 on a slight increase in patient count. Inogen has thus kept its 2020 revenue guidance intact. On the flip side, the company reported softness in business-to-business international and domestic revenues. A drop in the quarterly top and bottom line is disheartening as well. Tender uncertainty in a few European regions and currency headwinds dented the company's overseas revenues in the quarter. Significant contraction in gross margin and a dull bottom line view for 2020 add to the woes. Reflective of these, the stock has underperformed the industry in a year.

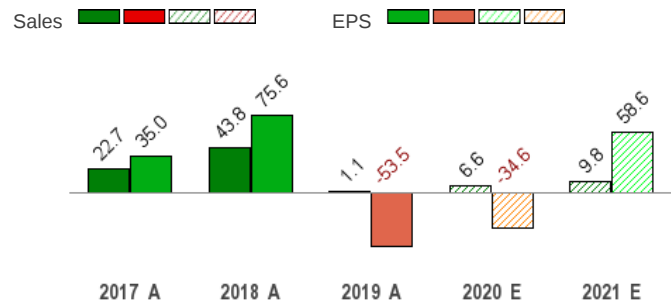
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$98.42 - \$35.00
20 Day Average Volume (sh)	456,299
Market Cap	\$966.2 M
YTD Price Change	-35.8%
Beta	1.49
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Instruments
Zacks Industry Rank	Top 24% (60 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-36.4%
Last Sales Surprise	0.0%
EPS F1 Est- 4 week change	-38.2%
Expected Report Date	05/05/2020
Earnings ESP	0.0%
P/E TTM	41.0
P/E F1	62.6
PEG F1	4.0
P/S TTM	2.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	98 E	111 E	109 E	104 E	424 E
2020	83 E	104 E	104 E	95 E	386 E
2019	90 A	101 A	92 A	79 A	362 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.18 E	\$0.43 E	\$0.37 E	\$0.27 E	\$1.11 E
2020	-\$0.10 E	\$0.32 E	\$0.33 E	\$0.14 E	\$0.70 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 03/13/2020. The reports text is as of 03/16/2020.

Overview

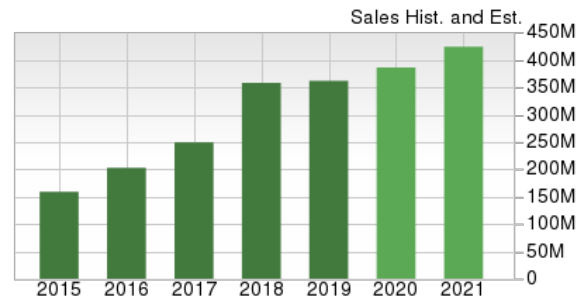
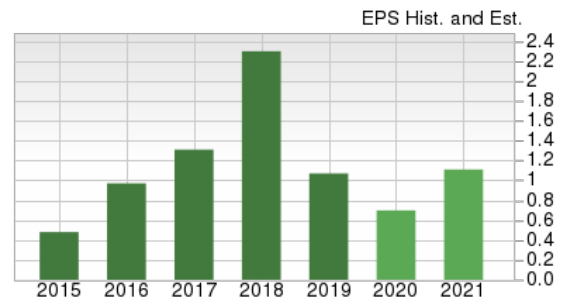
Goleta, CA-based Inogen Inc. develops, manufactures and markets portable oxygen concentrators (POC). POCs are used by patients who suffer from chronic respiratory conditions and need long-term oxygen therapy. POCs concentrate the air around the patient, filter out the nitrogen and other unwanted substances 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 fourth quarter of 2019, 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.

▲ **Revenue Guidance Intact:** Inogen saw segmental softness in the fourth quarter, which dragged its top line down.

We are upbeat about the fact that despite this, the company has kept its revenue guidance

intact. Notably, for 2020, Inogen expects revenues within \$385-\$400 million, calling for 6.4-10.5% growth over 2019. Also, Inogen expects modest growth in rental revenues in 2020 compared to 2019.

▲ **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.

▲ **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 company further expects to roll out Inogen One G5 by the end of 2019.

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).

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 54.2% compared with the industry's 11.9% decline. The current level also compares unfavorably with the S&P 500 index's 5.2% fall.

Inogen's segmental performance was weak and international revenues were soft in the fourth quarter. Foreign exchange woes also plague the company.

- ▼ **Valuation Looks Dull:** Inogen is currently trading at a forward P/E (F12M basis) ratio of 52.9 over the past year, which compares with 15.74 and 28.39 for the industry and the S&P 500 index respectively.

- ▼ **Q4 Debacle:** In the fourth quarter of 2019, Inogen saw softness in segmental revenues. Revenues at the Sales unit fell 9%, while Rental revenues dropped 6.1%. Resultantly, the top line fell 8.8% year over year. Additionally, business-to-business revenues in the United States declined a significant 18.9%. Per management, Inogen saw a decline in orders from one of its private label partners.

- ▼ **Global Headwinds:** In the fourth quarter, Inogen's international business-to-business revenues fell 7.7% year over year and 5.1% at constant currency. Per management, the decline was primarily led by tender uncertainty in certain European regions and currency headwinds.

- ▼ **Dull Bottom Line View:** Inogen expects to report loss per share for the first quarter of 2020. That's not all. Inogen expects 2020 EBITDA within \$44-\$50 million, down from the earlier projected \$56-\$58 million.

- ▼ **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.

Last Earnings Report

Inogen Q4 Earnings Miss Estimates, 2020 Guidance Dull

Inogen reported fourth-quarter 2019 earnings per share of 7 cents, which lagged the Zacks Consensus Estimate of 11 cents. This compares to earnings of 44 cents in the year-ago quarter.

Revenues of the company came in at \$78.9 million, which surpassed the Zacks Consensus Estimate by 0.02%. On a year-over-year basis, the top line dropped 8.8%.

Segmental Details

Revenues at the Sales segment amounted to \$73.5 million in the quarter under review, down 9% on a year-over-year basis.

Rental revenues grossed \$5.4 million, down 6.1% year over year.

Revenues by Region & Category

Business-to-business revenues in the United States amounted to \$20.6 million, down 18.9% on a year-over-year basis. Per management, Inogen saw a decline in orders from one of its private label partners.

Internationally, this segment recorded revenues of \$17.1 million, down 7.7% year over year and 5.1% at constant currency. Per management, the decline was primarily led by tender uncertainty in certain European regions and currency headwinds.

Direct-to-consumer revenues fell 2.8% year over year to \$35.8 million in the quarter.

Margins

In the fourth quarter, gross profit was \$33.9 million, down 22.1% year over year. Gross margin came in at 43%, down a significant 740 basis points (bps).

Loss from operations in the quarter was \$5.3 million against operating profit of \$4.8 million a year ago.

Guidance

For 2020, Inogen continues to expect revenues within \$385-\$400 million, calling for 6.4-10.5% growth over 2019. The Zacks Consensus Estimate for the same is pinned at \$402.2 million.

Notably, Inogen expects modest growth in rental revenues in 2020 compared to 2019.

Also, the company expects to report loss per share for the first quarter of 2020.

That's not all. Inogen expects 2020 EBITDA within \$44-\$50 million, down from the earlier projected \$56-\$58 million.

Quarter Ending **12/2019**

Report Date	Feb 25, 2020
Sales Surprise	0.02%
EPS Surprise	-36.36%
Quarterly EPS	0.07
Annual EPS (TTM)	1.07

Valuation

Inogen's shares are down 35.8% in the year-to-date period and down 54.2% the trailing 12-month periods. Stocks in the Zacks sub-industry are down 12.4% in the year-to-date period and down 12.8% the past year. The Zacks Medical sector is down 11.9% in the year-to-date period and down 13.8% the past year.

The S&P 500 index is down 15.8% in the year-to-date period and down 5.3% in the past year.

The stock is currently trading at 2.45X Forward 12-months sales, which compares to 3.15X for the Zacks sub-industry, 2.44X for the Zacks sector and 2.9X for the S&P 500 index.

Over the past five years, the stock has traded as high as 14.9X and as low as 2.08X, with a 5-year median of 5.5X.

Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$46 price target reflects 2.6X 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	2.45	3.15	2.44	2.9
	5-Year High	14.9	14.9	3.84	3.43
	5-Year Low	2.08	2.16	2.44	2.54
	5-Year Median	5.5	2.55	2.96	3
P/B TTM	Current	2.8	2.64	4	3.64
	5-Year High	22.49	4.2	5.05	4.55
	5-Year Low	2.59	2.54	3.45	2.85
	5-Year Median	7.45	3.29	4.32	3.63

As of 03/13/2020

Industry Analysis Zacks Industry Rank: Top 24% (60 out of 253)



Top Peers

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

Industry Comparison Industry: Medical - Instruments				Industry Peers		
	INGN Neutral	X Industry	S&P 500	HRC Neutral	IVC Neutral	RMD Outperform
VGM Score	F	-	-	C	C	D
Market Cap	966.19 M	76.69 M	19.05 B	5.98 B	191.51 M	21.65 B
# of Analysts	5	2	13	6	2	6
Dividend Yield	0.00%	0.00%	2.31%	0.94%	0.88%	1.04%
Value Score	C	-	-	C	C	D
Cash/Price	0.21	0.09	0.05	0.03	0.32	0.01
EV/EBITDA	19.99	-0.20	11.57	15.08	15.47	32.33
PEG Ratio	3.71	2.28	1.68	1.45	NA	2.50
Price/Book (P/B)	2.80	3.31	2.56	3.69	0.62	9.59
Price/Cash Flow (P/CF)	25.60	19.66	10.18	10.93	51.04	31.77
P/E (F1)	57.50	25.97	14.94	16.09	NA	35.30
Price/Sales (P/S)	2.67	2.58	2.02	2.06	0.21	7.78
Earnings Yield	1.60%	-1.84%	6.67%	6.22%	-2.46%	2.83%
Debt/Equity	0.01	0.10	0.70	1.09	0.84	0.61
Cash Flow (\$/share)	1.71	-0.06	7.01	8.17	0.11	4.71
Growth Score	D	-	-	C	C	C
Hist. EPS Growth (3-5 yrs)	43.21%	13.45%	10.85%	18.70%	NA	11.04%
Proj. EPS Growth (F1/F0)	-34.77%	17.45%	5.99%	9.19%	86.79%	16.53%
Curr. Cash Flow Growth	-40.33%	7.70%	6.15%	3.86%	-126.66%	7.87%
Hist. Cash Flow Growth (3-5 yrs)	15.10%	10.99%	8.52%	18.02%	NA	9.87%
Current Ratio	5.82	2.59	1.24	1.52	1.63	2.60
Debt/Capital	1.35%	15.34%	42.57%	52.18%	45.54%	37.71%
Net Margin	5.79%	-15.10%	11.64%	5.15%	-5.75%	16.34%
Return on Equity	7.07%	-23.03%	16.74%	21.87%	-10.85%	27.25%
Sales/Assets	0.86	0.58	0.54	0.63	1.07	0.67
Proj. Sales Growth (F1/F0)	6.72%	8.82%	3.54%	1.00%	2.47%	11.34%
Momentum Score	F	-	-	D	B	F
Daily Price Chg	8.06%	0.00%	8.21%	7.84%	9.00%	10.00%
1 Week Price Chg	-2.75%	-0.29%	-0.67%	-0.09%	-2.11%	4.48%
4 Week Price Chg	-5.00%	-22.99%	-22.67%	-17.83%	-36.28%	-14.38%
12 Week Price Chg	-38.30%	-19.09%	-20.46%	-21.35%	-39.85%	-4.04%
52 Week Price Chg	-54.50%	-36.77%	-10.79%	-14.69%	-42.12%	48.25%
20 Day Average Volume	456,299	152,872	3,061,271	641,957	371,655	723,367
(F1) EPS Est 1 week change	-6.93%	0.00%	0.00%	0.00%	0.00%	-1.01%
(F1) EPS Est 4 week change	-38.23%	0.00%	-0.32%	0.00%	0.00%	-1.01%
(F1) EPS Est 12 week change	-43.07%	0.00%	-0.65%	0.54%	-211.11%	3.29%
(Q1) EPS Est Mthly Chg	-168.97%	0.00%	-0.62%	0.00%	0.00%	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	C
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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