

## Inogen Inc. (INGN)

**\$29.23** (As of 08/24/20)

Price Target (6-12 Months): **\$31.00**

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:B

Value: B

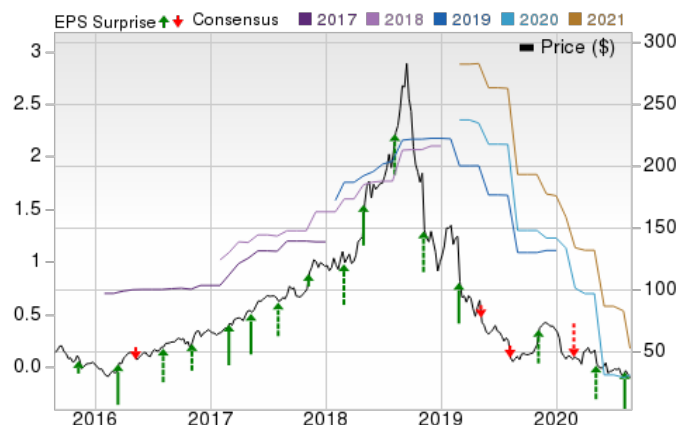
Growth: C

Momentum: C

## Summary

Inogen ended the second quarter on a mixed note with earnings beating but revenues missing estimates. The company saw growth in revenues within its Rental segment. An increase in patient interest in the company's products was observed sequentially in May and June. Inogen expects the business-to-business arm to be a strong contributor to revenues in 2020, thanks to the Tidal Assist Ventilator. The company's liquidity position is stable. On the flip side, it reported a decline in business-to-business international and domestic revenues in the quarter under review. Also, drop in direct-to-consumer revenues during the quarter is concerning. Sales segment revenues fell during the second quarter as well. The significant contraction in gross margin and operating loss adds to the woes. The stock has underperformed its industry over the past year.

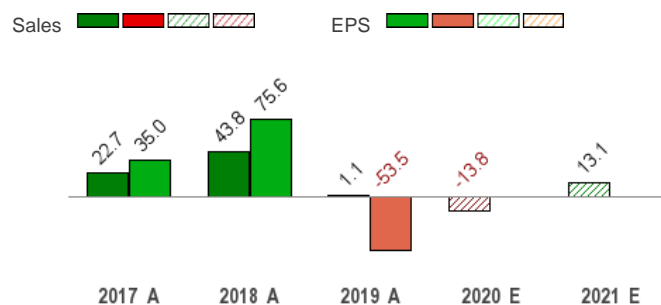
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	\$76.89 - \$28.57
20 Day Average Volume (sh)	398,125
Market Cap	\$645.0 M
YTD Price Change	-57.2%
Beta	0.71
Dividend / Div Yld	\$0.00 / 0.0%
Industry	<a href="#">Medical - Instruments</a>
Zacks Industry Rank	Bottom 34% (166 out of 252)

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



Last EPS Surprise	250.0%
Last Sales Surprise	-10.1%
EPS F1 Est- 4 week change	-2.7%
Expected Report Date	11/03/2020
Earnings ESP	0.0%
P/E TTM	68.0
P/E F1	NA
PEG F1	NA
P/S TTM	2.0

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	84 E	93 E	88 E	96 E	353 E
2020	88 A	72 A	75 E	76 E	312 E
2019	90 A	101 A	92 A	79 A	362 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$0.06 E	\$0.09 E	\$0.10 E	\$0.06 E	\$0.18 E
2020	-\$0.07 A	\$0.12 A	-\$0.02 E	-\$0.10 E	-\$0.08 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 08/24/2020. The reports text is as of 08/25/2020.

## 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.

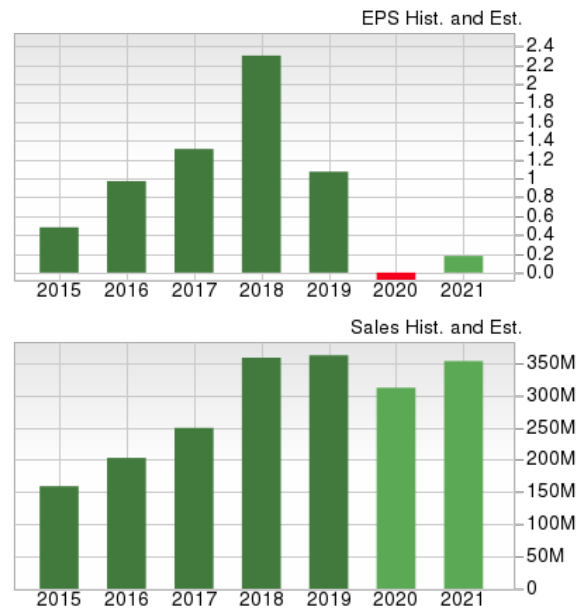
Inogen's flagship portable devices Inogen One G3 and G2 weigh approximately 4.8 and 7.0 pounds and have up to 4.5 and 5 hours of battery life, respectively. Being portable, these devices can be charged anywhere. Inogen began to follow a Direct-to-Consumer strategy post its acquisition of Comfort Life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

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. 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.

### 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:** Direct-to-consumer revenues fell 30.9% year over year in the second quarter of 2020. Sales were affected by the COVID-19 public health emergency (PHE) due to the lack of mobility from government mandated stay-at-home initiatives and economic uncertainty.

Despite a soft show in the second 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.

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.

- ▲ **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.

However, in the second quarter, internationally, business-to-business revenues declined 38.5% year over year and 37.4% at constant currency. Per management, the decline was primarily led by temporary shutdown of certain European respiratory assessment centers due to the COVID-19 pandemic and continued tender delays in few European markets.

- ▲ **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. An increase in patient interest in the company's products was observed sequentially in May and June

- ▲ **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.

However, in the second quarter, business-to-business revenues in the United States declined 27.3% on a year-over-year basis. Per management, the decline was primarily owing to reduced demand from home medical equipment providers and resellers of portable oxygen concentrators (POC).

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 Jun 30, 2020, amounting to \$219 million, up from \$208 million in the preceding quarter. Meanwhile, the company's long-term debt came in at \$9 million, flat sequentially. Moreover, the company's current debt level was \$2 million, also flat 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 uncertainty, the company has sufficient cash with no outstanding debt. Also, in the second quarter, the company's debt-to-capital ratio was 2.9%, compared with 33.6% of the industry.

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## Reasons To Sell:

- ▼ **Shares Lack Luster:** Over the past year, shares of Inogen have plunged 37% against the industry's 23.5% rise. Direct-to-consumer revenues fell 30.9% year over year in the second quarter. Also business-to-business revenues fell both domestically and internationally. Foreign exchange woes also plague the company. Additionally, owing to the coronavirus pandemic, the stock price has been largely affected.
- ▼ **Q2 Debacle:** In the second quarter of 2020, Inogen saw a 29.1% drop in total revenues, mainly due to the impact of the COVID-19 pandemic. The company saw softness in segmental revenues. Revenues at the Sales segment fell 31.6% on a year-over-year basis.
- ▼ **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.
- ▼ **Forex 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 Q2 Earnings Beat Estimates, Revenues Miss

Inogen, Inc. reported second-quarter 2020 earnings per share of 12 cents against the Zacks Consensus Estimate of a loss of 8 cents. However, the bottom line fell 73.3% from year-ago quarter.

Revenues of this company came in at \$71.7 million, which missed the Zacks Consensus Estimate by 10.1%. On a year-over-year basis, the top line dropped 29.1% mainly due to the impact of the COVID-19 pandemic.

Quarter Ending **06/2020**

Report Date	Aug 04, 2020
Sales Surprise	-10.08%
EPS Surprise	250.00%
Quarterly EPS	0.12
Annual EPS (TTM)	0.43

### Segmental Details

Revenues at the Sales segment amounted to \$65.6 million in the quarter under review, down 31.6% on a year-over-year basis.

Rental revenues grossed \$6.1 million, up 16.9% from the year-ago period.

### Revenues by Region & Category

Business-to-business revenues in the United States amounted to \$21.6 million, down 27.3% on a year-over-year basis. Per management, the decline was primarily owing to reduced demand from home medical equipment providers and resellers of portable oxygen concentrators.

Internationally, this segment recorded revenues of \$13.9 million, down 38.5% year over year and 37.4% at constant currency. Per management, the decline was primarily led by temporary shutdown of certain European respiratory assessment centers due to the COVID-19 pandemic and continued tender delays in few European markets.

Direct-to-consumer revenues fell 30.9% year over year to \$30.2 million in the quarter. Sales were adversely impacted by the COVID-19 public health emergency (PHE) due to the lack of mobility from government mandated stay-at-home initiatives and economic uncertainty.

### Margins

In the second quarter, gross profit was \$32.7 million, down 34.8% year over year. Gross margin came in at 45.7%, down a significant 400 basis points (bps).

Loss from operations in the quarter was \$2.4 million against the year-ago quarter's operating profit of \$12.1 million.

### Guidance

Due to the uncertainty around the impact and scope of the COVID-19 pandemic on its business, the company has not issued any quarterly or full-year guidance.

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## Valuation

Inogen's shares are down 57.2% and 37% in the year-to-date and trailing 12-month periods, respectively. Stocks in the Zacks sub-industry and Zacks Medical Market are up 16.3% and 0.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is up 23.5% and sector is up 10.6%.

The S&P 500 index is up 7.8% in the year-to-date period while up 21.7% the past year.

The stock is currently trading at 1.9X Forward 12-months sales, which compares to 4.4X for the Zacks sub-industry, 2.8X for the Zacks sector and 3.8X 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 5.4X.

Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$31 price target reflects 2X 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	1.91	4.40	2.79	3.76
	5-Year High	14.90	4.44	3.42	3.76
	5-Year Low	1.80	2.52	2.23	2.53
	5-Year Median	5.44	3.09	2.89	3.05
P/B TTM	Current	1.84	3.82	3.82	4.64
	5-Year High	22.49	5.07	5.07	4.64
	5-Year Low	1.84	2.94	2.94	2.83
	5-Year Median	7.40	4.29	4.29	3.76

As of 08/24/2020

## Industry Analysis Zacks Industry Rank: Bottom 34% (166 out of 252)



## Top Peers

Company (Ticker)	Rec	Rank
Accuray Incorporated (ARAY)	Neutral	3
Integra LifeSciences Holdings Corporation (IART)	Neutral	3
Luminex Corporation (LMNX)	Neutral	2
Nevro Corp. (NVRO)	Neutral	3
ORTHOFIX MEDICAL INC. (OFIX)	Neutral	3
Tandem Diabetes Care, Inc. (TNDM)	Neutral	3
T2 Biosystems, Inc. (TTOO)	Neutral	2
AngioDynamics, Inc. (ANGO)	Underperform	4

Industry Comparison Industry: Medical - Instruments				Industry Peers		
	INGN	X Industry	S&P 500	ANGO	LMNX	TNDM
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	4	2	3
VGM Score	B	-	-	C	B	C
Market Cap	644.99 M	135.27 M	23.81 B	343.29 M	1.40 B	6.54 B
# of Analysts	5	2	14	2	4	6
Dividend Yield	0.00%	0.00%	1.64%	0.00%	1.19%	0.00%
Value Score	B	-	-	B	C	D
Cash/Price	0.34	0.12	0.07	0.16	0.20	0.06
EV/EBITDA	11.42	-1.49	13.37	-2.29	69.31	-332.40
PEG Ratio	NA	3.99	3.02	NA	NA	NA
Price/Book (P/B)	1.84	3.46	3.17	0.75	2.74	24.41
Price/Cash Flow (P/CF)	17.07	22.92	12.77	12.47	70.50	NA
P/E (F1)	NA	48.62	21.72	NA	37.20	NA
Price/Sales (P/S)	1.95	4.41	2.48	1.30	3.78	15.93
Earnings Yield	-0.27%	-3.86%	4.44%	-1.21%	2.69%	-0.48%
Debt/Equity	0.02	0.13	0.76	0.09	0.42	0.80
Cash Flow (\$/share)	1.71	-0.13	6.93	0.73	0.43	-0.13
Growth Score	C	-	-	C	B	A
Hist. EPS Growth (3-5 yrs)	19.11%	10.12%	10.41%	-8.49%	-26.00%	NA
Proj. EPS Growth (F1/F0)	-107.10%	7.56%	-5.05%	-216.67%	485.71%	-23.81%
Curr. Cash Flow Growth	-40.33%	5.04%	5.20%	-52.40%	-57.32%	-93.28%
Hist. Cash Flow Growth (3-5 yrs)	15.10%	10.65%	8.50%	-13.80%	-15.21%	13.65%
Current Ratio	5.98	2.94	1.33	2.97	7.25	4.72
Debt/Capital	2.42%	18.30%	44.50%	8.08%	29.75%	44.31%
Net Margin	1.96%	-25.57%	10.13%	-62.76%	3.04%	-10.29%
Return on Equity	2.68%	-17.25%	14.66%	0.62%	2.38%	-12.88%
Sales/Assets	0.73	0.53	0.51	0.39	0.62	1.04
Proj. Sales Growth (F1/F0)	-13.91%	0.00%	-1.45%	3.75%	26.10%	27.16%
Momentum Score	C	-	-	B	C	D
Daily Price Chg	-0.44%	0.00%	1.32%	0.55%	-4.26%	-1.30%
1 Week Price Chg	-8.22%	-1.62%	-1.45%	-3.38%	1.94%	12.58%
4 Week Price Chg	-5.68%	-0.33%	3.38%	3.01%	-18.96%	7.61%
12 Week Price Chg	-24.18%	0.01%	7.69%	-12.67%	-4.80%	26.70%
52 Week Price Chg	-37.02%	3.00%	3.85%	-51.52%	52.25%	53.62%
20 Day Average Volume	398,125	255,275	1,873,293	304,918	861,738	865,288
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-2.70%	4.03%	1.00%	0.00%	367.31%	41.55%
(F1) EPS Est 12 week change	-2.70%	4.63%	3.40%	-167.74%	367.31%	45.20%
(Q1) EPS Est Mthly Chg	-122.73%	3.60%	0.00%	0.00%	2,175.00%	34.74%

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## 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.

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### 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	<b>B</b>
Growth Score	<b>C</b>
Momentum Score	<b>C</b>
VGM Score	<b>B</b>

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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