



**MAY
2021**



INMODE LTD.

EQUITY RESEARCH



**SFU
GMG**

SFU GLOBAL MARKETS GROUP

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InMode Ltd.

Industry Analysis, Thesis, and Model Implications

Three Key Incremental Points:

(1): Strong product differentiation, patent, and viable growth

InMode's offers multiple face and body contouring procedures on top of the traditional laser-based aesthetic procedures that their competitors offer. Thanks to their patented technologies, **they were able to secure a 5-Y average 154.94% revenue growth, and this trend is expected to continue as they increase their presence in Brazil, Japan, and Mexico.**

(2): Growing demand for medical aesthetics procedures globally

The U.S. market for aesthetics services is growing at an estimated CAGR of 9.8% from 2021 to 2028. The United States market is expected to grow at a faster-than-average rate - the market is projected to reach 15.9 billion by 2025 at a CAGR of 14.04%. Meanwhile, the non-US market is worth 76.8 billion and is growing at 4.81% CAGR. **This, coupled with the firm's high market acquisition due to its direct salesforce strategy, are the key to sustaining 14.33% YoY expected growth from 2021E to 2025E.**

(3): Strong refutation against existing short theses

There are various legal claims against InMode Ltd, which may or may not have been settled yet. There are lawsuits relating to injuries allegedly incurred from InMode's products. However, examining deeper into some of the lawsuits such as Mardock vs. Adean Kingston, M.D., Adean Kingston, M.D., PLLC, Tiffany Hudzik, R.N., Invasix Ltd., and Christian Fretheim; Dr. Kingston fell below the necessary standard of care by taking advice from Invasix representative, Christian Fretheim, who is not authorized to practice medicine and failed her duty to exercise medical judgment and care as a licensed, trained and experienced medical professional. Further, Dr. Kingston did not obtain informed consent and inform Mardock of the risks of the procedure, she was negligent in using the Fractora device properly as she was aware and knew that she was applying too much pressure and the settings were too high. Christian Fretheim is no longer associated with InMode. Similarly, In Esther Dafoe v.s. Le Jolie Medi-spa, Mock vs. Jodee M. Anderson, Fresh Faces LLC, Invasix Inc, InMode MD, Ltd., Rose vs. Kenneth Huges, M.D., Wang vs. Wave, are all lawsuits involving Invasix or InMode's devices, but are about firm malpractice and medical negligence. It is InMode's duty to provide the correct instructions and manual guide(s) regarding their medical devices, but the onus is on the medical professional to exercise their judgment and years of experience and act accordingly.

Overweight

Ticker: INMD.NASDAQ

Price (01 May 2021): \$86.33

Target (Apr-2022): \$146.16

ROI: ▲ 69.31%

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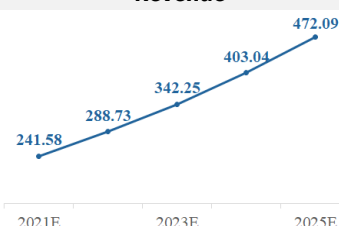
Key Metrics (FYE Dec)

TEV/Last FY Revenue: 16x

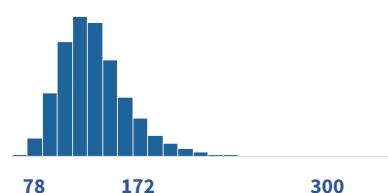
TEV/Last FY EBITDA: 44.43x

Forecasts (FYE Dec)

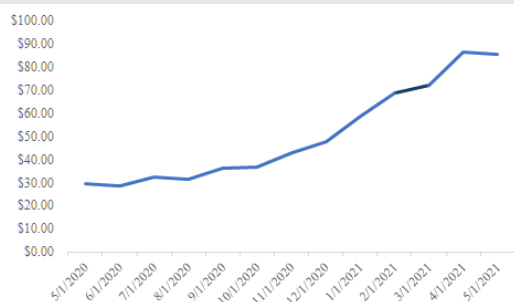
Revenue



Sensitivity Analysis



Price Performance



Company Data

Shares Outstanding (mm)	38.2
52-week range (\$)	24.80-93.91
Market cap (mm)	3,416.60
Volume (mm)	0.83
Float %	65.20%
Earnings Date	Aug. 03, 2021 - Aug. 09, 2021
EPS (TTM)	1.16
Beta	-

Key Metrics (FYE Dec)

\$ in millions	FY20A	FY21E	FY22E
Financial Estimates			
Revenue	206.107	205.34	245.42
Adj. EBITDA	72.84	78.97	94.38
Adj. Net Income	71.73	78.2	71.73
Adj. EPS	2.14	2.34	2.14
CFO	72.15	78.60	72.13
FCFF	65.73	79.19	72.90
Margins and growth			
Revenue growth	31.8%	-0.4%	19.5%
Gross margin	85.0%	85.0%	85.0%
EBITDA margin	35.3%	38.5%	38.5%
Adj. EPS Growth	27.8%	9.2%	-8.4%
Ratios			
Adj. tax rate	1.5%	1.0%	24.0%
Interest cover	-	-	-
Net debt/Equity	-	-	-
Net debt/EBITDA	-	-	-
ROE	28.2%		
Valuation			
FCFF yield	16.44%		
Dividend yield	-		
EV/Revenue	21.88	21.96	18.37
EV/EBITDA	61.90	57.10	47.78
Adj. P/E	12.23		

Summary of Investment Thesis and Valuation

Investment Thesis

We hold an 'Overweight' rating on the INMD shares. INMD's strong product differentiation coupled by its growth strategy into countries outside of the United States such as Brazil, Mexico and Japan make it ready for increased earning potential. The non-US market alone is worth 76.8 billion and is growing at 4.81% CAGR whilst the US market is projected to reach 15.9 billion by 2025 at a CAGR of 14.04%.

As a result of these factors, INMD has been able to attain 154.94% revenue growth across a 5 year average. However, concerns regarding INMD's legal disputes may be of concern to shareholders and potential investors alike.

Upon closer examination, we determined that the doctors involved in providing the procedures using INMD's products were at fault, not the firm's products. Hence, we are confident that the legal claims, settled or otherwise should not affect INMD's valuation.

Thus, we maintain our 'Overweight' rating on the INMD shares as we believe the firm has increased earning potential in the near future.

Valuation

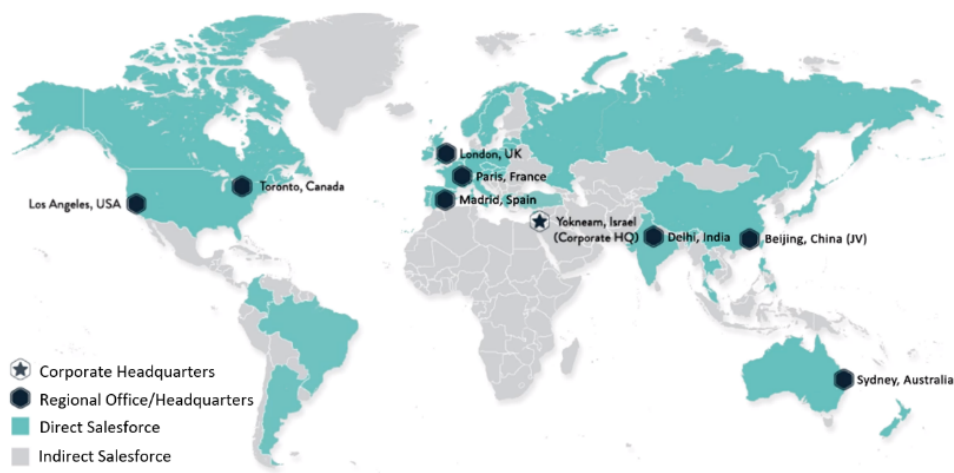
Given that revenues are calculated based on industry growth and the firm's increase in market share and integration, we assume:

- S&A to remain constant at 41.98% due to them being variable costs relative to cost of goods sold.
- R&D to remain constant at 4.59%. which aligns to management's plan to continuously research and launch 2-3 products every year.
- EBITDA margin to gradually decline from 2021 to 2025 due to the expiration of Israel enterprise tax benefits by the end of 2021.
- Beta of 1.95 reflecting InMode's solo position in the public market, the possibility of market fallout risk impacting stock demand and supply, and its high stock price volatility relative to other industries.

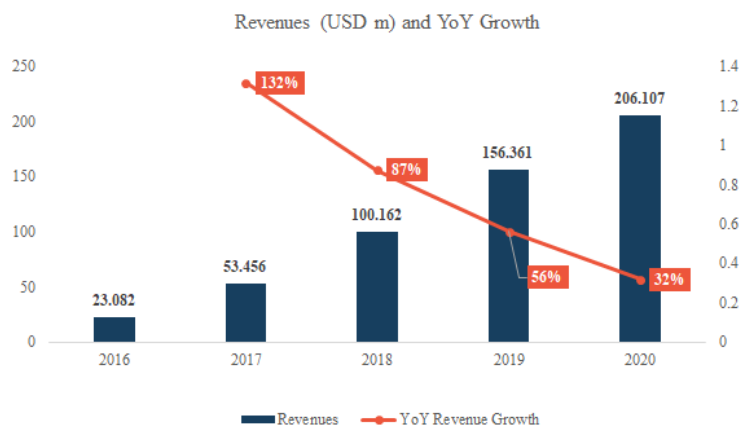
Using these assumptions, our financial model calculates that InMode will generate a revenue of 241.58 million by fiscal year-end 2021, which is less than management's estimate of 250 to 280 million. Our dynamic model calculates, with a 95% confidence level, that the intrinsic value per share is in between \$95.86 to \$235.36 (a ROE of 11.03% to 172.63%, respectively).

Business Overview

InMode Ltd. designs aesthetic medical products, manufactures them, and sells them to medical practitioners. Headquartered in Yokneam, Israel, their products are directly distributed in the US, Canada, the United Kingdom, Spain, Australia, and India, as well as indirectly through distributors in 46 countries.

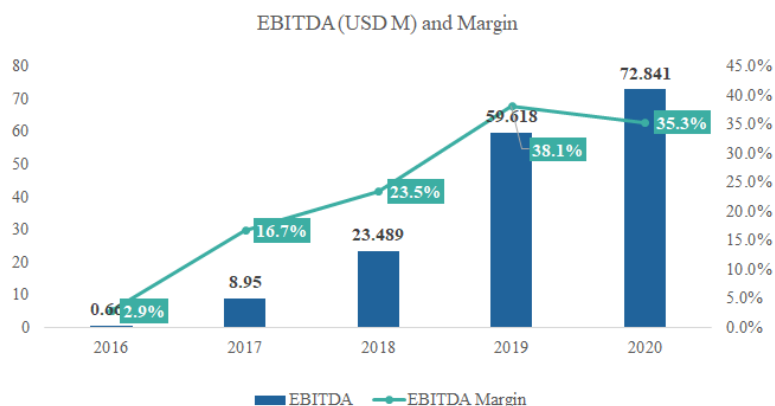


InMode has a market capitalization of US\$2.59B as of March 28, 2021. The company was founded in 2008, formerly known as Invasix Ltd. and changed its name to InMode in 2017.



InMode is characterized by strong revenue growth and increasing profitability. From 2016-2020, the firm grew by 155% CAGR. The firm successfully increased its revenues by 32% during the COVID-19 pandemic in 2020, showing strong resilience against macroeconomic headwinds.

The firm is also becoming more cost-effective due to economies of scale. As a result, the firm's EBITDA grows at an even higher rate than its revenues.



Business Strategy

Currently, the management team plans to add more Outside US (OUS) sales into the revenue mix, while continuing to expand on its existing US market as its second priority. By leveraging technology and executive experience, they plan to release 2-3 new platforms every year.

InMode includes business practice development consultation, product service, and maintenance on top of their sales service. InMode very strongly markets their platforms by targeting their potential customers via office visits, trade shows, professional journals and paid and unpaid media.

InMode has seen an enormous amount of gratitude from their services, especially coming from the likes of worldwide celebrities. Some of the celebrities that have gone through InMode specific services include: Kim Kardashian, Kourtney Kardashian, Chrissy Teigen, Shay Mitchell, Amber Rose, and Emma Roberts. Most of the celebrities named received face contouring from InMode's Forma devices. InMode manufactures all laser handpieces in Yokneam and other major components are developed through third-party manufacturers from a fixed number of suppliers. Since February 21, 2021, InMode has owned seven U.S issued patents and one Korean issued patent. The U.S issued patents are to expire between 2027 and 2038.

Product Segments

InMode generates its revenues from the sale of three main product categories: Minimally-invasive, hands-free, and non-invasive platforms. Hands-free products experienced the highest annual growth at 400% as end-consumers prefer the sanitary alternative due to COVID-19.



InMode's minimally invasive products (MI) are based on its proprietary radio frequency assisted lipolysis and deep subdermal fractional radio frequency technologies. Its MI products are capable of completing procedures such as:

- Liposuction with simultaneous skin tightening
- Body and face contouring
- Ablative skin rejuvenation treatments.

Their MI platforms include: EmbraceRF, Optimas, BodyTite, Morpheus8, Votiva; hands-free platforms include: Evoke, Evolve; and their traditional platforms include Contoura and Triton. Details of their products can be found on the Appendix.

Industry Overview

The medical aesthetics market is a USD 86.2 billion industry globally¹. Female consumers make for 92% of all cosmetic procedures, while male consumers make for the rest 8%². The industry has slowly shifted from traditional surgeries to 'minimally-invasive' procedures, which are surgeries that have minimal scarring/incisions to the skin. Firms market their products to dermatologists, plastic surgeons, and cosmetic physicians, who use them to provide professional service to celebrities and household consumers.

It is common for companies to patent their products with unique names (for example, Syneron's Electro-Optical Synergy Technology). Nevertheless, these patents are abundant in the industry and function similarly relative to the objective of the product (for example, wrinkle reduction). They serve more as marketing plays as it helps practitioners and end-consumers to develop brand awareness and loyalty, and therefore will not be discussed in detail in this report.

Competitor Analysis

Major players in the industry include :

- **Syneron Medical**³ was founded in 2000 and is headquartered in Yokneam Illit, Israel. It offers products ranging from hair removal to laser-assisted lipolysis. As of July 17, 2017, Syneron was taken private for \$397M by Apax Partners⁴. A majority of InMode's current executives were ex-Syneron employees.
- **Merz Pharmaceuticals, LLC**⁵, a specialty healthcare company, develops and markets aesthetics/OTC, dermatology, and neuroscience products for physicians and patients in the United States and Canada. It offers aesthetics/OTC products, including skin care and nonprescription products for scars, dermatology products and psychiatric diseases. The company was founded in 1995 and is headquartered in Greensboro, North Carolina. The firm operates as a subsidiary of Merz Pharmaceuticals GmbH.
- **Cynosure, Inc.**⁶ develops, manufactures, and markets aesthetic treatment systems for plastic surgeons, dermatologists, and other medical practitioners. It offers products ranging from treatment of facial, veins, and pigmentations to acne scars, fine lines, and wrinkles. The company sells its products through a direct sales force in the United States, Canada, France, Morocco, Germany, Spain, the United Kingdom, Australia, China, Japan, and South Korea, as well as through independent distributors in approximately 120 countries. Cynosure, Inc. was founded in 1991 and is headquartered in Westford, Massachusetts.

Most of the industry players are privately-owned firms, therefore, we could not find their present financial data for an accurate comparable analysis. InMode, being one of the only public firms with over USD 2 billion of market capitalization, encompasses approximately 2% of the global market capitalization⁷.

¹ GrandView Research, 2020

² American Society of Plastic Surgeons, 2019

³ Syneron Medical, 2021

⁴ Crunchbase, 2021

⁵ Merz Pharmaceuticals, LLC., 2021

⁶ Cynosure, Inc., 2021

⁷ Yahoo Finance, 2021

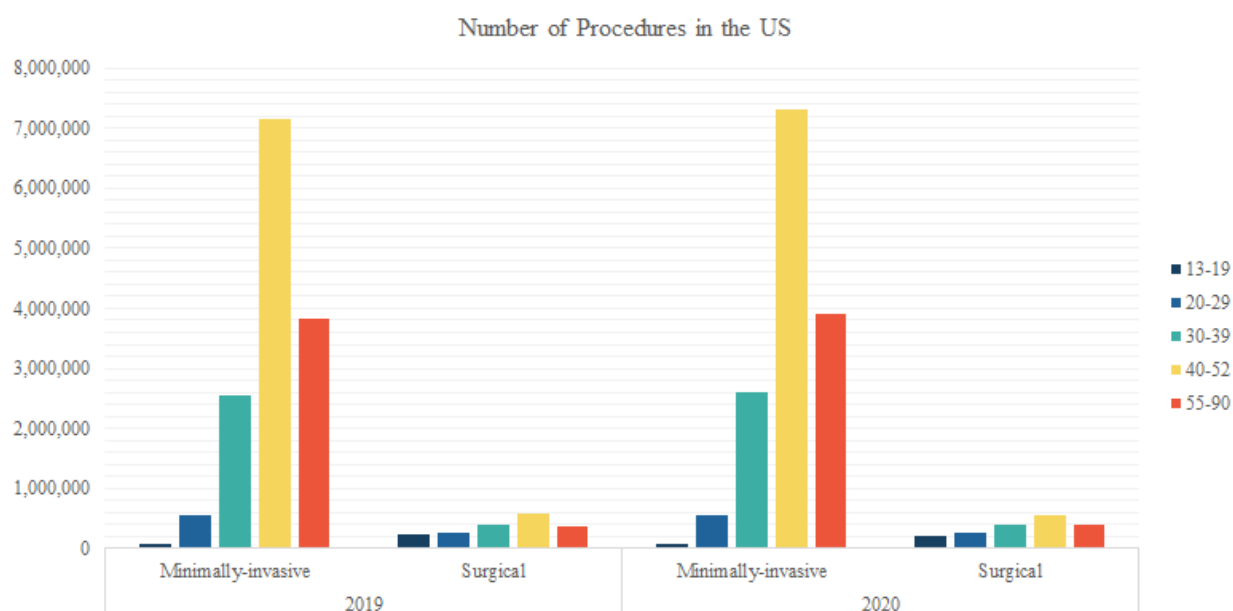
Industry revenue is growing at an estimated CAGR of 9.8% from 2021 to 2028. The United States market alone adds up to USD 9.4 billion, and is projected to reach 15.9 billion by 2025 at a CAGR of 14.04%⁸.

Industry Acquisitions

When taking a look at historical acquisitions within the medical equipment industry as a whole, we found that median deal size in the U.S. has been rising after hitting a low point in 2016. Deal sizes were rising due to the 2.3% Medical Device Tax that was imposed on Medical Technology manufacturers. As of lately, M&A activity within the medical equipment industry has been driven by recent developments within the medical industry field and improved medical technology.

Demographics and Preferences

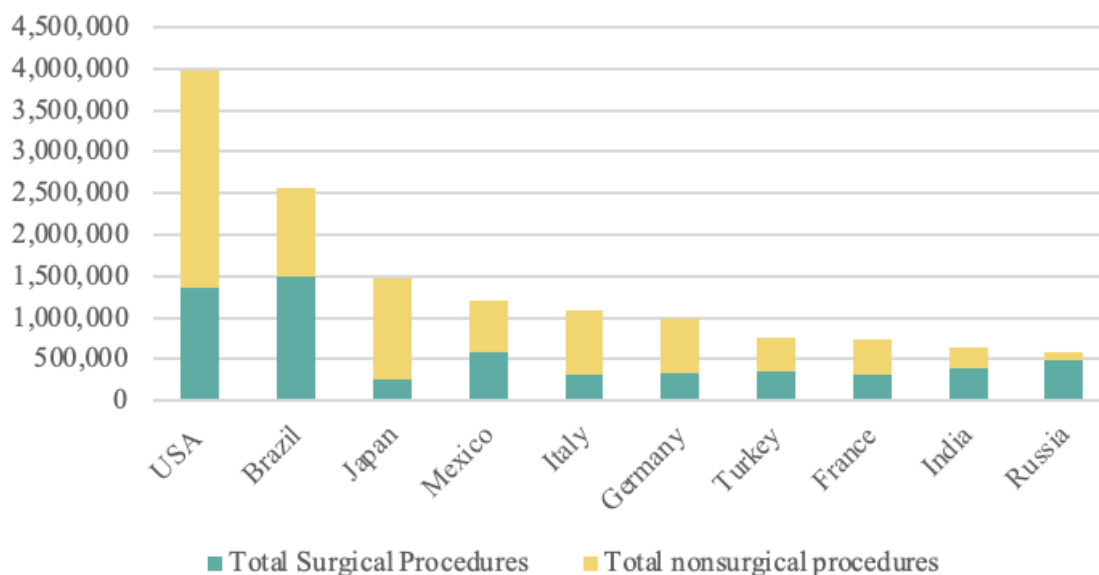
InMode specializes in face contouring, body contouring, women's health and wellness as well as hair removal. InMode's major customers include surgical trained physicians (100,000+ in the U.S and 200,000+ globally), some perform aesthetic procedures while others do not. The US market is dominated by people aging 35-60, but this age demographic gets younger over time. Treatment costs are relatively affordable at tens of thousands of dollars. Further details on US demographics can be seen on the chart below.



Demand for minimally-invasive procedures among US citizens aged above 30 increased at 2%.

⁸ Research and Markets, 2020

Countries Ranked by Total Number of Procedures



Patents and Patent Applications

Device for treatment at different tissue depths (RF Fractional Device)

RF Tissue treatment device

Skin rejuvenation resurfacing device

Device and method for treatment of sleep disorders

RF device for skin and fat treatment

Method of adipose tissue treatment

Device for collagenous tissue treatment

Management Analysis

Management Team

InMode's management team consists of seasoned professionals in the industry. Starting with the **CEO**, Mr. Moshe Mizrahy was a Co-founder of Syneron Medical Ltd., and served as its CEO from 2001 to 2005. From 1996 to 2001, he was the Founder and Owner of Business Strategy Group. He has been the CEO and Chairman of Board of Directors of InMode Ltd since January 2008. He has extensive management experience in the medical aesthetic market and in venture capital, strategic development and the US capital markets serving as Chairman and/or Director of various companies. Mr. Mizrahy holds a B.Sc. in Industrial Engineering from the Tel-Aviv University in Israel and an M.B.A in Corporate Finance and Marketing from Pace University in New York.



Dr. Michael Kreindel has been the **Chief Technology Officer** since January 2008 and has been a Director since August 2019. Dr. Kreindel served as Chief Technology Officer of Syneron Medical Ltd. from July 2000 until 2008. From 1994 to 2000, Dr. Kreindel served as a Senior Scientist and then as Project and Program Manager in ESC Sharplan. Dr. Kreindel was leader of a scientific group in the Institute of Electrophysics in Russia. He served as a Director of Syneron Medical Ltd. from July 2000 until 2008. Dr. Kreindel has an M.A. in experimental and plasma physics from the Ural Polytechnic Institute in Russia and a Ph.D. in pulsed power, gas discharge and plasma physics from the Institute of Electrophysics in Russia.



Mr. Yair Malca has been the **Chief Financial Officer** of InMode Ltd since 2017. Previously, Mr. Malca was the Director of Finance for Jazz Semiconductor, Inc., from 2013 to 2017; he served as controller for various medical, industrial companies, and was previously an accountant at EY. Mr. Malca holds a B.A. in Accounting and Economics from Haifa University and an MBA from Tel Aviv University, and is a Certified Public Accountant in Israel. Dr. Michael Kreindel, Yair Malca, and Moshe Mizrahy own a large chunk of the company (~30%).



Mr. Shakil Lakhani has been the **President of North America** division of InMode Ltd since 2017. Lakhani was previously the Executive Vice President of Sales for North America since February 2017, where he managed all sales operations and established a new distribution strategy. He graduated with a B.A. from the University of Waterloo, and in 2006 he shifted career paths and moved into the technology space by joining Cynosure. He has held multiple roles at various levels at Cynosure, including Director of Sales from September 2013 through January 2017. As such, Mr. Shakil is a key and important figure in the distribution of InMode's products in the North American market.

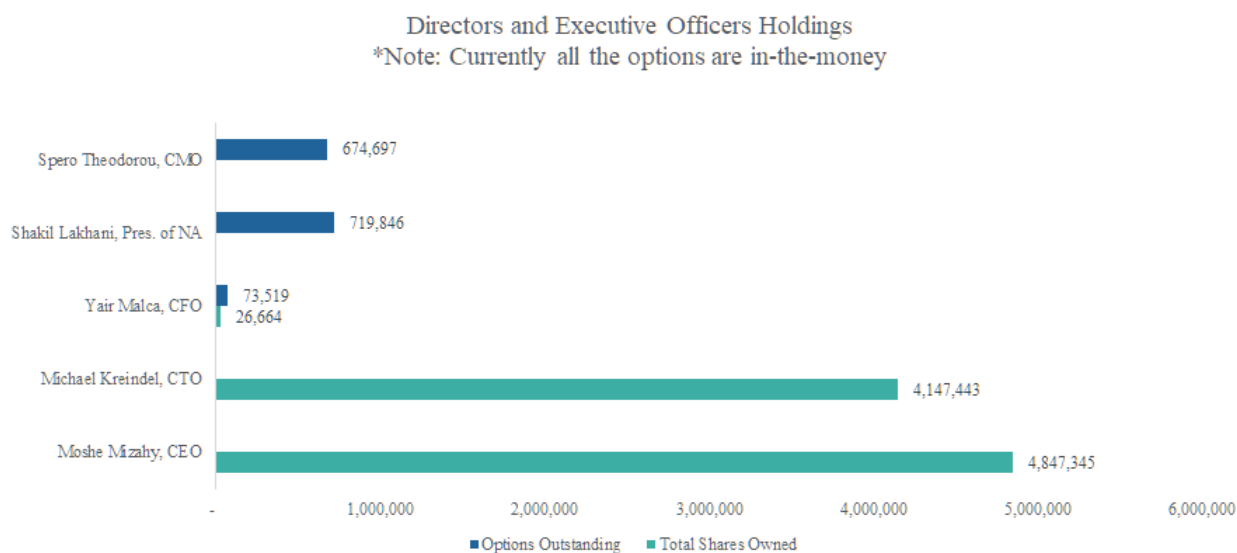
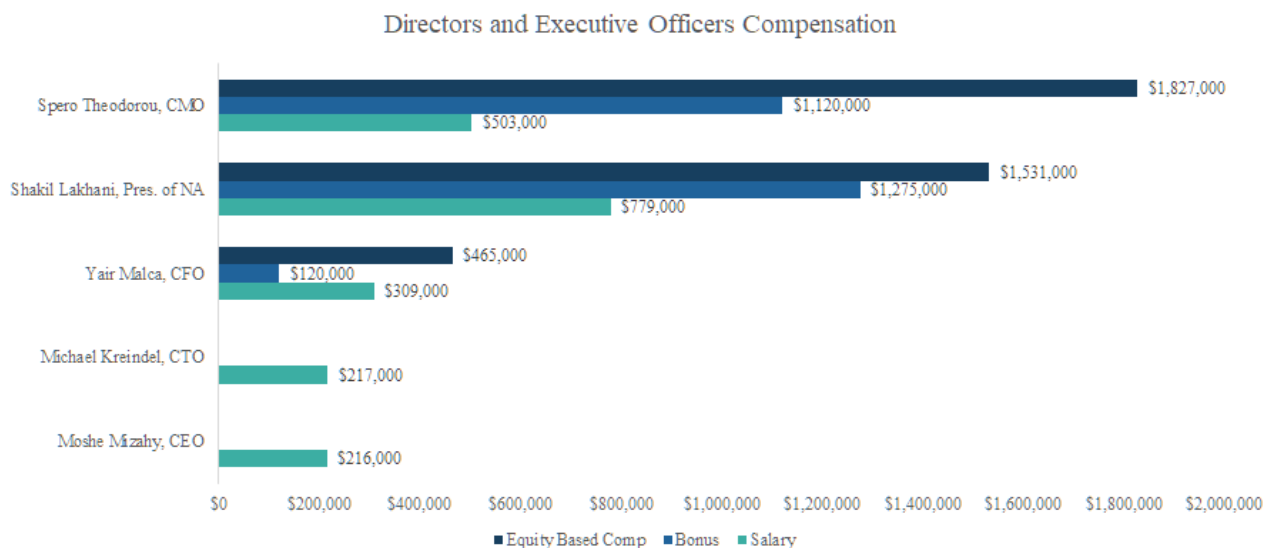


Dr. Spero Theodorou, M.D. **Chief Medical Officer** of InMode Ltd and is responsible for the development of all of the Company's procedures, clinical studies and training. Dr. Theodorou received his training in plastic and reconstructive surgery at Rush Presbyterian St. Luke's Medical Center at Rush University in Chicago, Illinois from 2001 to 2003. Upon completion, he underwent an additional year of training in cosmetic plastic surgery at the Manhattan Eye, Ear and Throat Hospital's (MEETH) Aesthetic Plastic Surgery Fellowship Program affiliated with Hofstra University from 2003 to 2004. Dr. Theodorou is presently on the teaching faculty at MEETH and at the



American Society of Aesthetic Plastic Surgery (ASAPS) where he instructs plastic surgeons on the latest advancements in body contouring surgery. He holds an academic appointment as Clinical Assistant Professor of Surgery at Zucker school of Medicine, Hofstra University and is the founder and Surgical Director of bodySCULPT® since November 2007, which is an American Association for Accreditation of Ambulatory Surgery Facilities (AAAASF)-accredited plastic surgery practice in Manhattan, New York. Dr. Spero is a very important figure in InMode's R&D.

Management Compensation Structure and Ownership



As we can see from the management compensation and ownership structure, the governance at InMode Ltd is very aligned with shareholders. A large proportion of the directors and officers compensation is equity-based, especially the CEO and CTO. Therefore, it would certainly be in the best interests of the directors and officers to do anything in their power to focus on creating shareholder value.

Catalysts

The Medical Aesthetics market includes products such as Botox treatments, Dermal Filler, Liposuction, Cellulite Reduction, Fat Reduction, Skin Tightening etc. These treatments are minimally invasive compared to traditional cosmetic plastic surgery and are a great option for both men and women who want to get some light work done to improve their looks. This type of “cosmetic upkeep” is becoming increasingly common and socially accepted, if not encouraged as demand to tweak one's looks to match social norms set by social media grows.

One might think that the United States of America takes the lion's share of cosmetic procedure demand worldwide as Americans are seemingly obsessed with how they look, but this is simply not the case. The US only accounts for about 18% of the world's demand for these types of procedures. Brazil, India, Mexico, Japan, Italy and Russia account for 27 percent of the global demand for cosmetic procedures. This is a result of the growing middle class in these countries who have the disposable income required for cosmetic surgery. Another important point to note is that procedures in these countries are also significantly cheaper as well. For example, a typical liposuction in the US costs about \$3500 USD, but in India this procedure costs approximately 1000 USD.

InMode's revenue is split 73% US and 27% internationally. This means that their international revenue is lacking and as global demand for cosmetic procedures increase, InMode's international revenue will increase to match the proportion of demand. Management has capitalized on this gap in the market by establishing key subsidiaries in strategic locations around the world such as InMode New Delhi, InMode Australia and InMode Beijing.

Investment Thesis/Financials

We believe that there is a strong buy opportunity for InMode. InMode has superior access to capital by being the only/largest publicly traded pure-play aesthetics firm. As a result, we believe it has a cost of capital which should allow it to create more value [greater NPV] versus competition. With secular tailwinds such as the desire to beautify oneself, we expect InMode to grow its revenues at 18.23% annually over the next 5 years.

Fundamentally, InMode's product differentiation provides a competitive advantage. while competitors often specialize in just one type of treatment. InMode offers multiple face and body contouring procedures.

Refutation against existing short thesis

There is a short report against InMode Ltd. on March 4, 2020 from Marcus Aurelius Value, a reputable value-investing website/blog. In that report, they outline various legal claims against InMode Ltd, which may or may not have been settled yet. In the medical aesthetics industry, lawsuits are, to a certain degree, expected as incidents occur by chance alone, especially when sales are high. Cynosure, for example, had two lawsuits relating to false advertising against them. Additionally, InMode's strong cash balance of \$293.4 million means that they will not have liquidity problems in the event of a lawsuit.

Examining deeper into some of the allegations against InMode such as Mardock vs. Adean Kingston, M.D., Adean Kingston, M.D., PLLC, Tiffany Hudzik, R.N., Invasix Ltd., and Christian Fretheim; we found doctoral and marketing malpractices to be the main causes of most procedural accidents. Dr. Kingston fell below the necessary standard of care by taking advice from Invasix representative, Christian Fretheim, who is not authorized to practice medicine and failed her duty to exercise medical judgment and care as a licensed, trained and experienced medical professional. Further, Dr. Kingston did not obtain informed consent from Mardock and failed to inform her of the risks of the procedure, she was negligent in using the Fractora device properly as she was aware and knew that she was applying too much pressure and the settings were too high. Christian Fretheim is no longer associated with InMode.

Similarly, In Esther Dafoe v.s. Le Jolie Medi-spa, Mock vs. Jodee M. Anderson, Fresh Faces LLC, Invasix Inc, InMode MD, Ltd., Rose vs. Kenneth Hugues, M.D., Wang vs. Wave, are all lawsuits involving Invasix or InMode's devices, but are about firm malpractice and medical negligence. It is InMode's duty to provide the correct instructions and manual guide(s) regarding their medical devices, but the onus is on the medical professional to exercise their judgment and years of experience and act accordingly.

InMode Ltd DCF Assumptions

All values in millions of dollars

Assumptions		Variability	
		Market size	
2020 US market size	9,400	2025 estimated US market size	15,900
2020 Global market size	86,200	Implied US annual market growth	14.04%
2020 Non-US market size	76,800	2025 estimated Global market size	108,575
2020 revenues	206	2025 estimated Non-US market size	92,675
2020 US revenues	150	Implied Non-US annual market growth	4.81%
2020 Non-US revenues	56		
2020 US revenues as % of US market size	1.60%	Estimates	
2020 Non-US revenues as % of Non-US market size	0.06%	2025 estimated revenues as % of US market size	
Increase in marketing and sales distribution will impact the following		A1. Very strong economies of scale	2.00%
2025 estimated revenues as % of US market size	A2. Strong economies of scale	A2. Strong economies of scale	1.80%
2025 estimated revenues as % of US market size	1.80%	A3. No change	1.60%
		A4. Competitive market	1.40%
2025 estimated revenues as % of Non-US market size	B1. Successful global integration	A5. Very competitive market	1.20%
2025 estimated revenues as % of Non-US market size	0.15%	2025 estimated revenues as % of Non-US market size	
Notes		B1. Successful global integration	0.15%
1. Conservative estimate compared w/ projected industry growth @ 10.9% a year		B2. Global integration	0.10%
2. Assumes that future years will have similar margin ratios		B3. No change	0.06%
3. First year is higher due to tax benefits		B4. Global integration failure	0.03%
4. Conservative estimates compared to industry		B5. Global integration failure 2	0.02%
5. They commonly lease their equipments and do not spend a lot on R&D, so both expenses are not			
6. Per their latest investor relations presentation, they are not planning to initiate on M&A			
Investment Thesis			
1. Since InMode has no plans of conducting M&A, we assume that the firm will organically grow its			
2. InMode will use the market growth momentum to its advantage, and will be able to increase its			
3. InMode's variety of products, including its hands-free platforms, is easier to use by doctors and its			

InMode Ltd DCF Valuation

All values in millions of dollars

Estimates	2021E	2022E	2023E	2024E	2025E	Terminal
U.S. Market value	10,720	12,225	13,942	15,900	18,133	
U.S. Market growth	14.04%	14.04%	14.04%	14.04%	14.04%	
U.S. Market share	1.64%	1.68%	1.72%	1.76%	1.80%	
Non-US Market value	80,494	84,365	88,423	92,675	97,133	
Non-US Market growth	4.81%	4.81%	4.81%	4.81%	4.81%	
Non-US Market share	0.08%	0.10%	0.12%	0.13%	0.15%	
Revenue	241.58	288.73	342.25	403.04	472.09	481.53
COGS	36.16	43.22	51.23	60.32	70.66	
Gross Profit	205.42	245.51	291.03	342.71	401.43	
General and admin	5.06	5.15	5.54	5.25	5.31	
Sales and marketing	101.43	121.22	143.69	169.21	198.20	
R&D	11.10	13.26	15.72	18.51	21.68	
Legal settlements	0	0	0	0	0	
EBT	92.90	111.03	131.61	154.99	181.54	
Less: Taxes	0.90	26.65	34.22	43.40	50.83	
Net Income	92.00	84.38	97.39	111.59	130.71	
Add: Depreciation	0.40	0.40	0.40	0.40	0.40	
CFO	92.40	84.78	97.79	111.99	131.11	
Add: Capex	0.60	0.78	1.02	1.32	1.72	
Less: Change in NWC	0.01	0.01	0.01	0.01	0.01	
Unlevered FCFF	93.00	85.56	98.80	113.30	132.82	7,830.41
Ratios	2021E	2022E	2023E	2024E	2025E	Notes
Revenue Growth	23.86%	23.86%	23.86%	23.86%	23.86%	1
Gross Margin	85.03%	85.03%	85.03%	85.03%	85.03%	2
S&A (% of Rev)	41.98%	41.98%	41.98%	41.98%	41.98%	
R&D (% of Rev)	4.59%	4.59%	4.59%	4.59%	4.59%	
Depreciation (% of 3 year Capex)	81.20%	81.20%	81.20%	81.20%	81.20%	
EBIDA (% of Rev)	38.25%	29.36%	28.57%	27.79%	27.77%	3
Tax Rate	0.97%	24%	26%	28%	28%	4
Capex Growth	30%	30%	30%	30%	30%	5
Change in NWC (% of Rev)	3.34%	3.34%	3.34%	3.34%	3.34%	

Cost of Capital

CAPM	8.15%
Rf	1.11%
Beta	1.95
Risk Premium	4.72%
Constant Growth	2%
Enterprise Value	\$5,303.54

Total Debt	1.4
Minority Interest	3.7
Cash and Equivalents	234.3
Net Debt	\$ (229.20)
Equity Value	\$5,532.74
Shares Outstanding (mm)	32.8
Implied Value per Share	\$168.68

Terminal Multiples Method

EV/EBIT Multiple	31
Enterprise Value	\$5,627.84

Total Debt	1.4
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Minority Interest	3.7
Less: Cash and Equivalents	234.3

Equity Value	\$5,398.64
Shares Outstanding	32.8
Implied Value per Share	\$164.59

Valuation Breakdown

Discounted Cash Flow

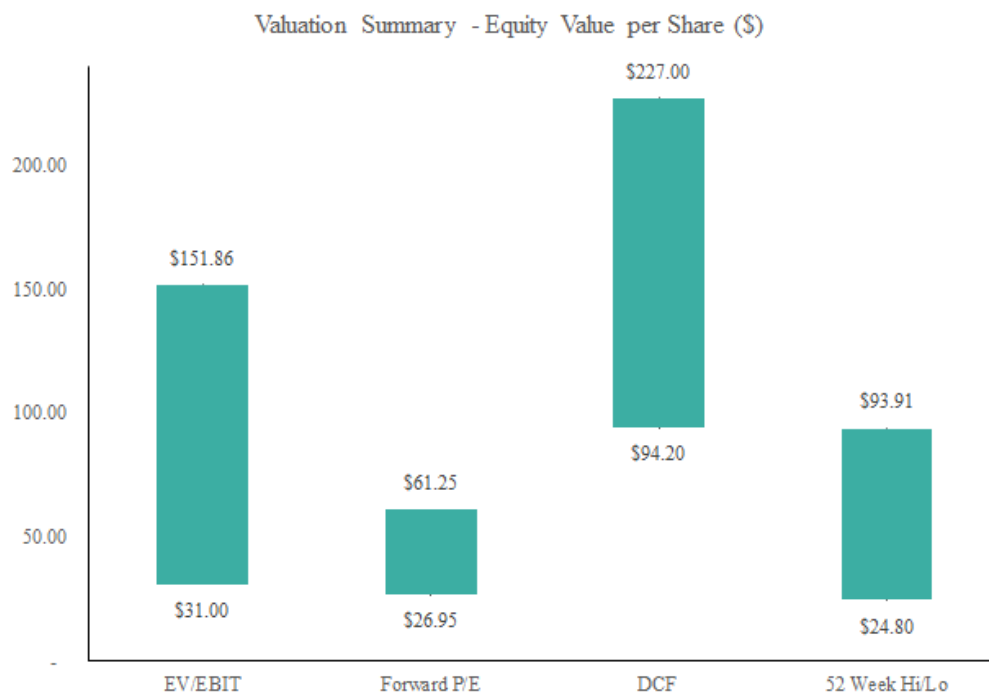
Revenues are calculated based on industry growth and the firm's increase in market share and integration. Assumptions are as follows:

- S&A to remain constant at 41.98% due to them being variable costs relative to cost of goods sold.
- R&D to remain constant at 4.59%, which aligns to management's plan to continuously research and launch 2-3 products every year.
- EBITDA margin to gradually decline from 2021 to 2025 due to the expiration of Israel enterprise tax benefits by the end of 2021.
- Beta of 1.95 reflecting InMode's solo position in the public market, the possibility of market fallout risk impacting stock demand and supply, and its high stock price volatility relative to other industries.

Alignment to management estimates

From our industry research, it is found that the US demand will grow at a faster rate than Outside US (OUS). However, InMode has established more subsidiaries in OUS locations over the past few years; therefore, we estimate a larger revenue growth for the firm's OUS segment. This aligns with management expectations, as they anticipate an "even faster expansion in the OUS market"⁹.

The model calculates that InMode will generate a revenue of 241.58 million by end fiscal 2021, which is less than management's estimate of 250-280 million. From our static model, we estimated an implied value per share of \$164.59 with an estimated 90.66% ROI.

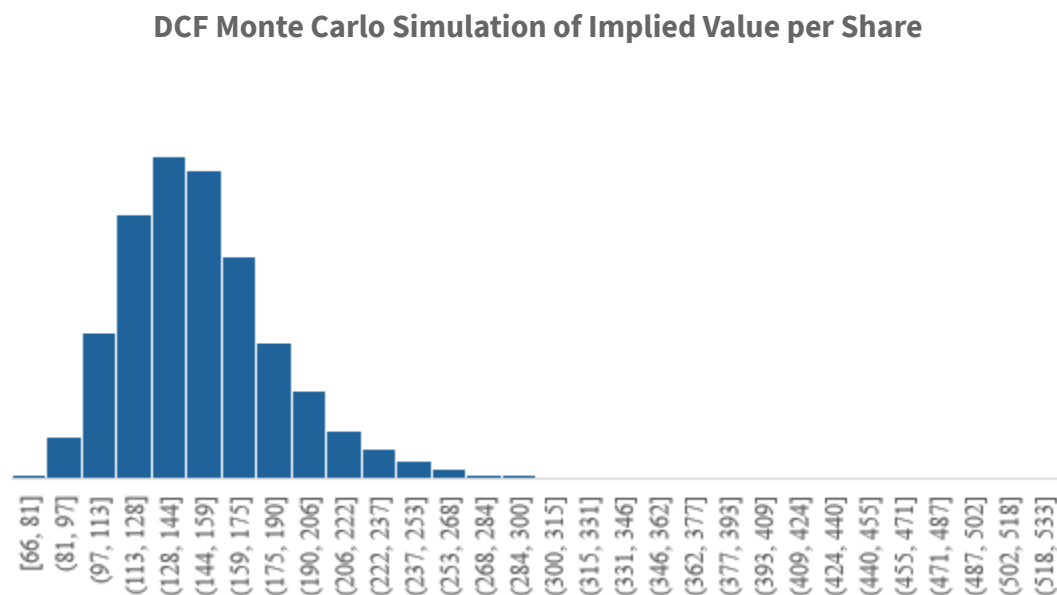


⁹ Mizrahy, 2021

We then run a Monte Carlo simulation to consider different scenarios impacting the DCF model including:

1. Deviations from expected market shares according to assumption scenarios.
2. CAPM deviations assuming normal distribution with SD of 1.00%
3. Market growth deviations assuming normal distribution with SD of 0.42%

The output distribution is as follows:



The model calculates with a 95% confidence level that the intrinsic value lies between \$95.86 to \$235.36, (11.03% to 172.63% ROE). On the 50th percentile (\$146.16), the stock has an underlying value of +69.31%.

Risks

As the pandemic ensues people are more and more likely to forego any cosmetic procedures for the time being as they are not essential. This is due to risk of exposure to COVID-19 as well as dwindling disposable income for potential clients.

Changing market tastes. Despite being minimally-invasive, clinical risks and complications like infection, bleeding, and organ injury still exist, though chance of occurrence is far less compared to invasive procedures. Although not mutually exclusive, consumers who are not willing to pay for minimally-invasive procedures or are discouraged by its risks can opt for natural alternatives such as over-the-counter acne treatments, depilatories, and diet pills. In 2020, over 85 million units of acne treatment products will be sold in the US, while sales of facial anti-aging solutions reached 66.76 million units¹⁰.

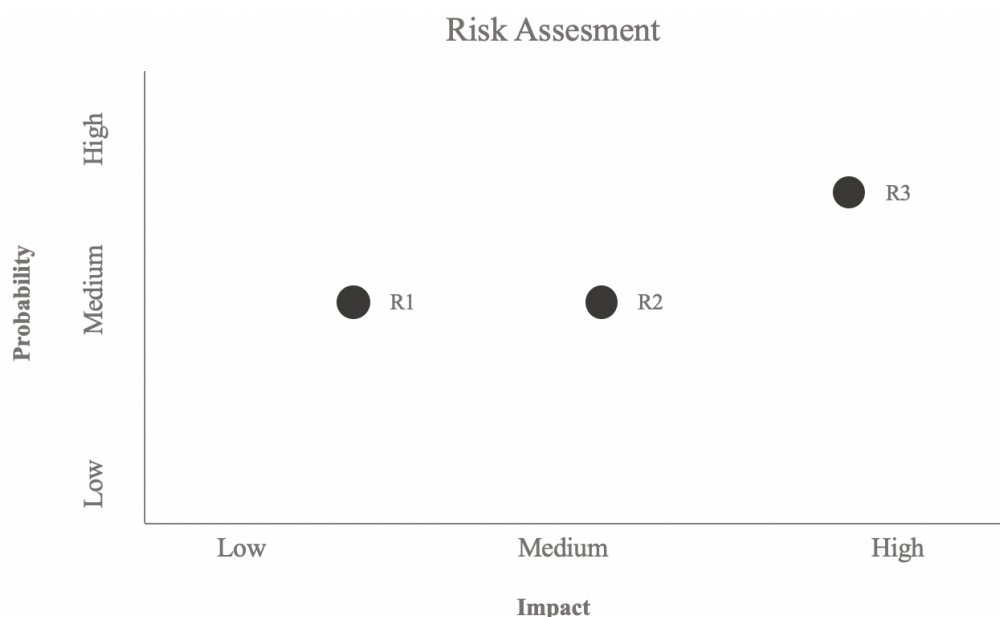
Malpractice Risk. Risk of malpractice causing negative public relations is another risk that InMode may face. Historically, 85,000 malpractice cases are reported annually in the US alone¹¹. However, given InMode's

¹⁰ Drug Store News, 2021

¹¹ CooperAndFriedman, 2019

reputation and recognition that InMode doesn't provide surgical services, this issue shouldn't concern the firm's public appearance substantially.

Overseas Patent Infringement Risk. InMode's focus on emerging markets opens them up to a significant risk of intellectual property and patent infringement as some of their target markets such as China and India do not have the sophisticated legal structure that exists in their domestic and american markets. The medical technology industry is extremely patent heavy, and InMode especially as they have a diverse product offering with unique differentiating features and technology. InMode also does not own the distribution channels in these countries which opens them up to even more exposure.



Where:

R1 = Changing Market Taste Risk

R2 = Malpractice Risk

R3 = Overseas Patent Infringement Risk

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APPENDIX

Bodytite is a workstation designed for removing fat from an individual's body but instead of small tubes being inserted through tiny cuts in the skin, Bodytite is done by directional radiofrequency (RF). Previously, fat reduction can only be achieved by excisional procedure; however, InMode's Bodytite is able to reduce fat by internal procedures. Bodytite works by applying thermal energy above the skin resulting in the fat to be removed and tightening the skin at the same time. The skin will tighten as the fat is removed simultaneously. However, even though Bodytite is comparable to liposuction, they are not exactly the same. Liposuction removes excess fat and then leaves the skin to contract over time. Bodytite congeals fat to reduce the wrinkly or saggy skin which ultimately results in tightened skin.



Contoura, is a workstation primarily focused on the body conducting cellulite and skin smoothing treatments. Contoura does these treatments without incisions or any downtime. Contoura delivers both safe and effective treatments while having zero consumable costs or pulse counters. Contoura is done by the use of radio frequency which allows the owners using it to provide body treatments (cellulite reduction, skin reduction, etc) on all of the body areas with one workstation. This ultimately allows for multiple streams of revenue coming from one machine.



The **Votiva** workstation aims to treat a full range of concerns for women. This machine is able to attract a broader patient base as the device addresses women's health and wellness. One of the handheld devices that supports the Votiva is the FormaV which treats patients to receive a quick solution for blood circulation, muscle pain relief, and muscle soreness. These are ailments that Votiva provides a solution to.



Evoke is InMode's hands-free facial remodeling workstation. This machine alone is able to deliver hands-free thermal facial and submental remodeling. It uses bipolar radiofrequency (RF) energy to the cheeks, neck, and jawline which then penetrates deep into the subdermal layer. Evoke can give more defined facial characteristics by remodeling the dermis and subdermal tissue. Some benefits with Evoke is that it has several custom facial treatments within one device.



Triton is a hair removal workstation that uses a combination of three wavelengths to tackle hair removal at different stages in the hair growth cycle. A benefit of the Triton is because of the blend of the multi-wavelength, this allows for hair removal without compromising certain treatment parameters.



InMode's other workstation, **Evolve**, is a hands-free total body remodeling platform. This device aims to treat and maximize results while providing the highest quality of aesthetic treatments. The Evolve targets adipose tissue and tone muscles when remodeling the body. A benefit with Evolve is that it can treat multiple areas of the body while providing the treatment.



Its non-invasive (NI) medical aesthetic products target an array of procedures, including:

- Permanent hair reduction
- Facial skin rejuvenation
- Wrinkle reduction
- Cellulite treatment
- Skin appearance and texture
- Superficial benign vascular and pigmented lesions

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