Porter & Co.

THE BIG SECRET ON WALL STREET

Skin In The Game

- Tumor-Busting Tech Becomes the Ultimate Beauty Treatment
- Celebrity Endorsements Power World-Class Economics

FROM THE DESK OF PORTER STANSBERRY

JAN. 12, 2024
#41

Skin In The Game

Tumor-Busting Tech Becomes the Ultimate Beauty Treatment

Celebrity Endorsements Power World-Class Economics

Ten-year-old Edgar couldn't spell the word "cabin"… even after writing it on the blackboard 500 times.

Back in the late 1880s, there were no early interventions for dyslexia. And after the "cabin" incident, Edgar's father lost patience and decided to apply his favored teaching tool: the backhand.

Edgar saw stars… and then, an angel.

"If you can sleep a little," the glowing being whispered, "we can help you." Stunned by the blow, Edgar slipped into unconsciousness… and, when he woke up, he knew every word in his spelling text by heart.

That was the bizarre origin story of Edgar Cayce – later known as the "Sleeping Prophet" and the "next Nostradamus" – who over the next 50 years would go on to deliver some 14,000 prophecies after communicating with angelic beings in a deep trance-like state.

In 1925, Cayce's angelic "spirit guides" predicted the stock market crash of 1929… in 1935, they warned him about the start of World War II… and over the years, they also dispensed medical advice for a variety of ailments: usually fairly common-sense remedies like fresh air, massages, and beef broth.

However, the spirit guides were particularly pushy about one unorthodox remedy, which they mentioned, through Cayce, almost 900 times: the Violet Ray Machine.

The Violet Ray was a quack-science version of a radio-frequency ("RF") device that delivers low doses of electric current to targeted sources. The original device is known as the Tesla coil – a scientific curiosity invented in the 1890s by scientist Nikola Tesla in pursuit of his longtime dream to generate "wireless power."

The coil proved unreliable for Tesla's purposes, but starting around 1915 – when the parts for these machines became easily portable – a cottage industry sprang up around using small amounts of electrical current to "cure" every condition imaginable. The Violet Ray – packaged in a horror-movie-looking suitcase – featured a variety of attachments to apply tiny shocks to whatever part of the body bothered you most.

Edgar Cayce's angels recommended liberal application of the Violet Ray, for everything from arthritis to glandular problems to demonic possession. As word spread about the fashionable new "cure," women snatched up electrode wands to cure hair loss, get rid of gray hair, and smooth out their wrinkles. And by 1942, comic book heroine Wonder Woman got her own "Purple Ray" machine – just in time to zap her dead love interest back to life with its magical beam.

Starting in the 1940s, through, a series of lawsuits for false advertising and malpractice began to catch up with the manufacturers of the Violet Ray. The craze eventually ended in 1951 (six years after Edgar Cayce's death) when the last purple-suitcase maker went out of business.

But in the meantime, the legitimate medical establishment had quietly picked up RF treatment – starting in the late 1920s, when urologist Edwin Beer took home a prestigious award for using targeted electric current to shrink benign bladder tumors.

By the '90s, RF had come into its own as a way to eliminate a variety of tumors. In this procedure, doctors insert a thin, needle-like probe through the skin directly into a tumor mass. Radio waves emitted from the probe cause nearby tumor cells to overheat and die, with minimal impact on the surrounding healthy cells. These RF-based treatments were just as effective as surgical tumor removal, with a success rate ranging from 66% to 95%. And they sidestepped lengthy recovery times and scarring – allowing patients to resume business as usual 24 hours after the procedure.

Then the skincare experts sat up and took notice.

Porter & Co.

In the early 2000s, medical researchers discovered that radio-wave frequency can also promote the growth of new collagen skin cells, which give skin its strength and elasticity. This gave rise to an entire industry of RF-based medical devices for skin rejuvenation procedures. Over the last decade, this industry has become one of the fastest-growing areas of medical technology, with sales growth exceeding 600%. That's the industry we're about to explore in this issue.

It almost sounds like the Violet Ray all over again.

Who knows… perhaps Edgar Cayce was "the next Nostradamus" after all.

A Wonderful Business at a Bargain-Basement Price

Today's recommendation is the global leader in RF-based cosmetic devices. This company's patented technology transforms radio waves into heat energy, which enables powerful treatment options for things like skin tightening and fat reduction.

The company has grown its revenues at a compounded annual growth rate exceeding 50% over the last five years. During that period, it has generated an average of 40% free cash flow ("FCF") margins, and 49% returns on equity ("ROE"). It's one of the most profitable and capital efficient businesses you'll find anywhere in the public markets.

The company sells its patented devices to doctors and medical practices around the world, providing them with a source of high-margin cosmetic procedures. But the ultimate end user is the beauty-focused consumer who pays top dollar for these enhancements. The transformational cosmetic improvements from this company's devices have led to rave reviews from some of the world's most high-profile celebrities.

The management team behind today's recommendation has led the development of this booming new market for the last 25 years. By delivering products with best-in-class technology and clinical outcomes, it has created the undisputed global leader in RF-based cosmetic devices.

The company's founder-led management has skin in the game – no pun intended – owning roughly 8% of the shares outstanding. Management runs the business conservatively, with a pristine balance sheet that includes a net cash balance equal to 30% of the total enterprise value ("EV").

Normally, a rapidly-growing business with a dominant competitive position and world-class profitability would command a premium valuation. But due to a series of short-term macroeconomic obstacles, the business currently trades at a record low valuation and a substantial discount to the overall stock market.

This has created a rare opportunity to buy a wonderful business at a wonderful price. Today, we'll show how investors could potentially realize gains of 500% or more from this business through 2030.

Making the World a Beautiful Place

Based in Israel, **InMode (Nasdaq: INMD)** was founded in 2008 by current CEO Moshe Mizrahy and CTO Dr. Michael Kreindel.

Mizrahy has 25 years of leadership experience in the RF device industry. He's a serial entrepreneur and an active angel investor, with over 20 investments in Israel-based life-science companies. He previously served as CEO and co-founder of medical-device maker Syneron in the early 2000s. There, he worked with CTO Kreindel to build the company into the early leader in RF-based cosmetic devices.

Kreindel holds a Ph.D. in nuclear physics, and is widely recognized as a pioneer in the development of RF technology. One of Kreindel's most notable achievements was the invention of Syneron's innovative ELOS system, which became the primary technology platform behind InMode's RF-based devices to this day.

The ELOS' key advancement was the development of a more precise, more effective, and less-invasive delivery system for RF energy. The first generation of RF-based skin tightening devices relied on monopolar delivery. In monopolar devices, RF energy is transmitted from a single electrode, through body tissue, to a grounding pad. This causes the energy delivery to vary based on the patient's tissue, resulting in significant inconsistencies in outcomes from one patient to the next.

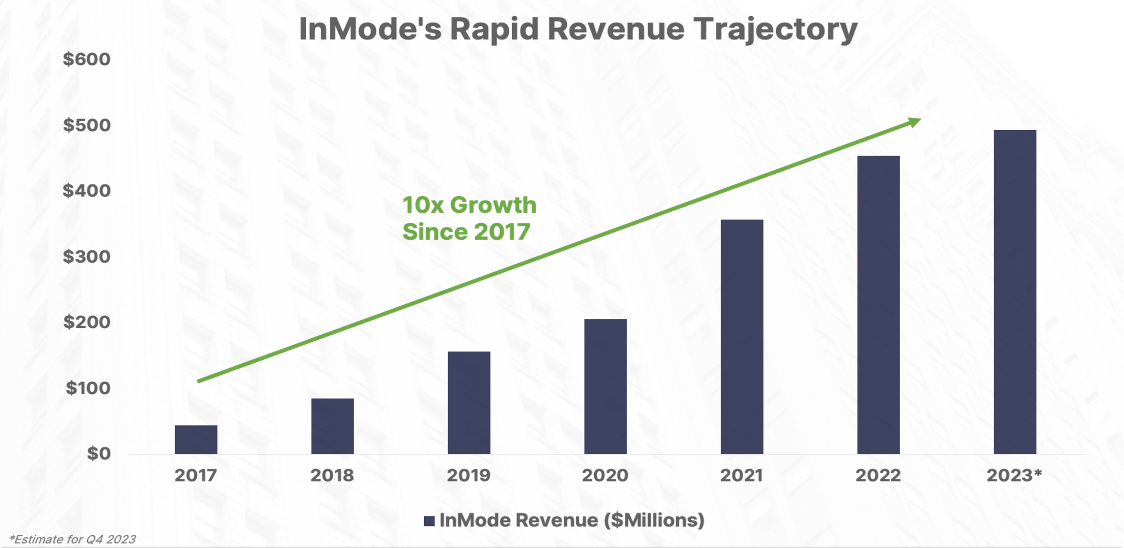
Kreindel developed a bipolar delivery system for ELOS. Instead of sending RF energy from a single electrode to a grounding pad, bipolar devices transmit energy between two electrodes. In this way, physicians can precisely control the energy delivery by changing the distance between the electrodes – regardless of the tissue differences from patient to patient.

Syneron owns the first generation of bipolar RF-based energy delivery systems, through its ELOS platform. But InMode has access to something far more valuable – the brains that created this technology, Dr. Kreindel. Mizrahy and Kreindel retired from Syneron in the mid-2000s and in 2008 launched a new RF cosmetic device company, InMode.

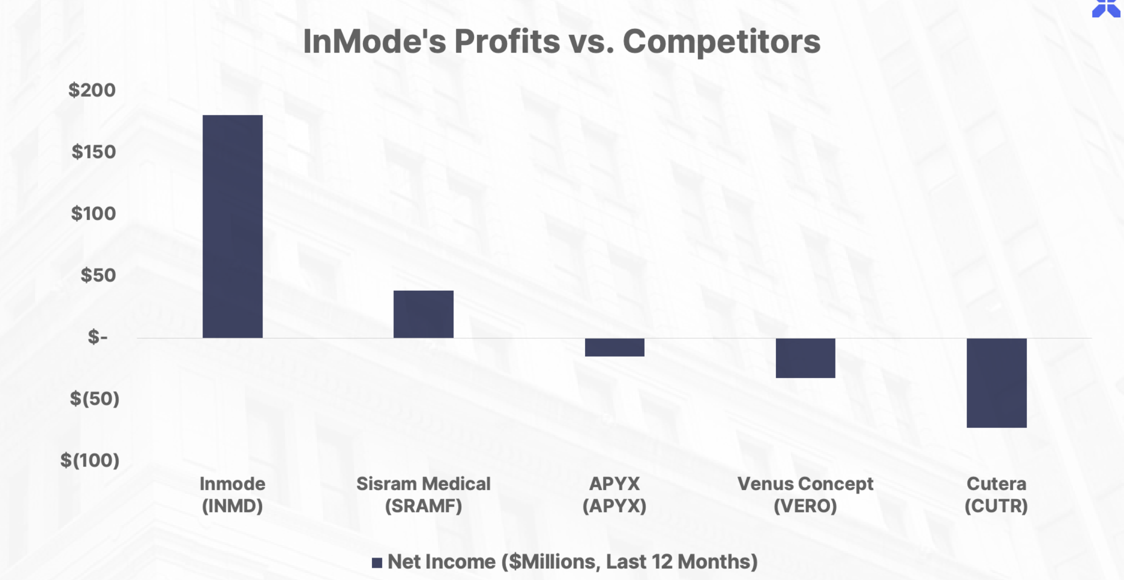
The Largest, Most Profitable RF Device Maker

At InMode, Kreindel and Mizrahy developed the next generation of industry-leading bipolar RF-based technology. As InMode's fortunes rose, their former company Syneron went in the opposite direction. Following a multi-year erosion in sales growth and profitability, Syneron accepted a $400 million take-private transaction in 2017.

In the meantime, InMode emerged as the dominant industry leader in RF-based cosmetic devices. From 2017 through last year, the company's sales have soared nearly 10-fold from $54 million to $499 million – for a compounded annual growth rate of 54% per year since 2017. This makes InMode the largest and fastest-growing RF-based cosmetic device maker.



InMode is the largest player in the market, and also the most profitable. The table below shows InMode's net income versus its top four publicly traded competitors. InMode's largest public peer is Hong Kong-based Sisram Medical, which generates roughly 10% profit margins and earned $38 million last year. That's a distant second to InMode's 40% profit margins that delivered $180 million in earnings last year. Meanwhile, the rest of the competition has yet to reach profitability:



InMode's success has been a function of its best-in-class technology, which is backed up by a large body of third-party research. This includes 79 medical trials and 84 peer-reviewed scientific publications that showcase the efficacy of InMode's various devices. The company has received 29 Food and Drug Administration ("FDA") approvals, and its products are protected by six U.S. patents (with another 14 U.S. patents pending approval) plus one Korea-issued patent.

Before diving into the details of InMode's various product offerings, let's first step back to assess the scope of the opportunity that lies ahead.

The Cosmetic Treatment Gap

The market InMode serves is what the company calls the "treatment gap" between non-invasive, laser-based cosmetic procedures, and plastic surgery.

Each year, more than 40 million laser-based cosmetic procedures are performed worldwide, plus another 2.5 million plastic-surgery procedures. InMode's RF-based devices sit strategically in the middle of these two categories. The company's devices enable superior results versus laser-based treatments, while also offering a lower-cost, lower-risk, and more convenient option than plastic surgery.

InMode's biggest opportunity lies in taking market share from laser-based cosmetic devices.

Both laser and RF technology work by the same basic mechanism for cosmetic procedures like skin tightening and rejuvenation. In both treatments, physicians apply an energy source that causes microlesions to subdermal skin cells (the tissue underneath the skin surface). These small lesions cause minor damage to subdermal skin cells, which prompts a healing response that generates new growth in collagen cells. These new collagen cells tighten and rejuvenate subdermal tissue for the desired cosmetic outcome.

The shortfall of laser-based treatments is that the laser energy must first pass through the surface-level skin before reaching the subdermal tissue layer. As a result, laser-based treatments are inherently limited by the collateral damage they can cause to surface-level skin. RF-based technology, on the other hand, penetrates the skin and applies energy directly to the subdermal tissue. This allows RF-based devices to target subdermal tissue with greater efficacy, leading to better clinical results.

As RF-based technology has improved substantially over the last decade, the number of RF-based skin treatments have grown more than 600% by taking market share from laser-based alternatives.

InMode has led the industry's innovation in RF-based devices. The company's best-in-class technology has made the company the largest player in the industry. Today, it has over 18,300 installed devices in 92 countries, including 8,400 in the U.S.

And CEO Mizrahy sees huge growth potential: he estimates that there are 80,000 to 100,000 laser-based cosmetic devices deployed around the globe. The opportunity for InMode lies in increasingly displacing today's laser treatments with InMode's superior RF-based technology.

Next, let's dive deeper into InMode's product offerings to see the kind of results its devices can deliver for patients.

InMode's Best-in-Class Technology Enables Cosmetic Transformation

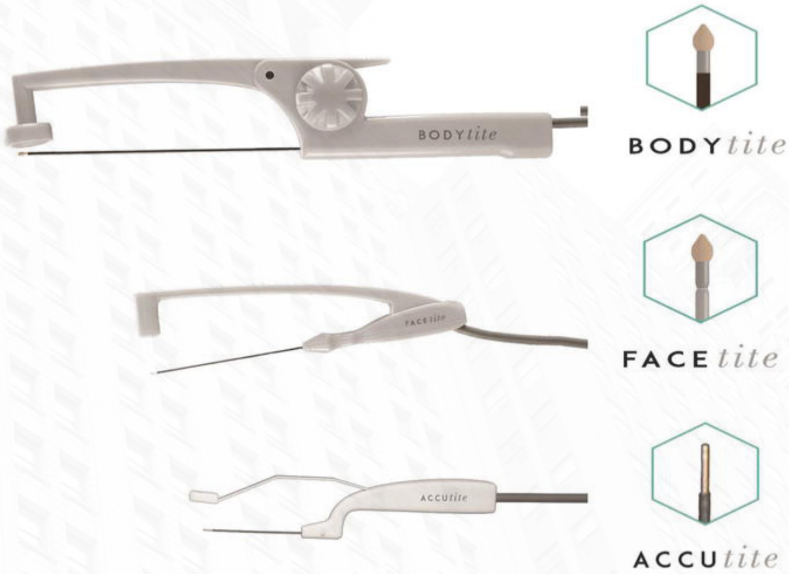
Over the last 15 years, InMode has launched 10 product platforms based on its proprietary, patented RF technology. Each of these platforms contains an RF-based technology designed for achieving a specific cosmetic function. These functions include skin tightening, body contouring, hair removal, fat-cell elimination, and vaginal rejuvenation. InMode develops a series of devices around each technology platform that target certain areas of the body (face, neck, thighs, or torso).

The company released its first platform, BodyTite, in 2010. BodyTite uses a groundbreaking, patented technology known as radiofrequency-assisted lipolysis (RFAL). RFAL harnesses the same tumor-busting power of RF technology to target and liquefy fat cells, which are then removed from the body through liposuction. BodyTite also uses RF energy to tighten skin during the procedure. This technology duo delivers a first-of-its-kind device that combines liposuction with skin tightening.

InMode's RFAL-based devices have been used in 190,000 successful treatments since 2010. The company currently sells four devices based on the BodyTite platform – FaceTite (facial treatments), NeckTite (neck treatments), BodyTite (body treatments) and Accutite (both face and body treatments).

Even with InMode's original BodyTite platform approaching 15 years in age, the company

constantly invests in adding new technology and features. For example, over the past 10 years, InMode has dramatically reduced its BodyTite devices down to handheld sizes – offering doctors greater convenience and dexterity versus the comparatively bulky machines made by InMode's competitors:



The efficacy of InMode's products also continues improving over time. The latest generation of technology can produce dramatic cosmetic improvements on par with plastic-surgery procedures. Consider the following before-and-after transformation from a successful FaceTite treatment posted on the website of a Palo Alto, California, plastic surgeon's office, L&P Aesthetics:

No laser treatments available today are capable of producing this combination of fat reduction and skin tightening. While plastic surgery can deliver comparable results, InMode's devices enable significant cost savings and convenience versus surgical procedures. Equally important, InMode's devices also offer a compelling financial proposition for physicians.

InMode's Winning Formula: Superior Outcomes for Patients and Doctors

To get a sense of the value InMode's devices provide, consider the case of a typical FaceTite procedure versus the facelift, a comparable surgical alternative.

A single FaceTite treatment costs around $1,500. Doctors often recommend between one and three FaceTite treatments. So even the most involved procedures that require three FaceTite sessions will cost around $5,000. This is half of the $10,000 expense of an average facelift surgery.

In terms of convenience, each FaceTite procedure is performed in one-hour sessions, performed under local anesthesia, with a recovery time ranging between two to five days. A facelift, meanwhile, requires general anesthesia, sometimes an overnight hospital stay, and a recovery time of between four and six weeks.

For physicians, InMode's devices present an opportunity to generate attractive, high-margin sources of revenue. The company's handheld devices enable quick, easy procedures that can be performed in an hour. Because InMode's minimally and non-invasive procedures don't require general anesthesia, doctors can perform these procedures with minimal staff, expense, and additional equipment. Compare this with a facelift, which requires four to six hours for the procedure alone, plus a full staff working in the operating room.

With sufficient demand for just several treatments each week, doctors can bring in tens of thousands of dollars in incremental sales per month. That's an attractive proposition relative to the cost of InMode's devices, which have an average selling price of roughly $130,000 across its portfolio. These devices come with a workstation that includes one or a series of surgical handpieces, connected to InMode's proprietary software system for delivering and monitoring each treatment.

Importantly for doctors, these cosmetic procedures are typically paid for in cash (or payment plans) that bypass the red tape and cost of dealing with private insurance or Medicare, which is generally the path plastic-surgery patients follow.

The same basic principles apply to InMode's full line up of devices, which offer a full suite of tools for a growing array of cosmetic procedures.

InMode's Other Product Lines

Another one of InMode's notable platforms include Optimas, introduced in 2016. This technology combines an intense pulsed light laser (IPL) with RF energy. From this platform, InMode created non-invasive treatment options for skin rejuvenation with its Fractora and Forma products.

From InMode's Optimas platform, the company also created devices for permanent hair removal and vascular lesion treatments, through its DioLaze XL and Vasculaze devices. InMode's RF-based hair-removal devices offer a significant advancement over traditional laser-based alternatives. For the reasons discussed earlier, laser-based hair removal can't target deep skin tissue as effectively as RF-based treatments. As a result, most laser treatments can only offer temporary hair-removal treatments that must be continuously re-applied.

In 2017, InMode released its next-generation bipolar RF-based technology platform, Contoura. This platform powers the BodyFX, MiniFx, and Plus devices that offer the same fat-reduction and skin-tightening treatments as the BodyTite devices. The key difference is that Contoura enables a non-invasive treatment (i.e., no skin penetration). This made InMode the first and only company offering non-invasive RF devices that provide both fat-reduction and skin-tightening functionality.

Finally, InMode's most successful platform to date is known as Morpheus, based on deep subdermal fractional RF technology.

This patented technology enabled InMode to introduce a first-of-its-kind suite of devices for delivering RF energy as deep as eight millimeters into subdermal tissue versus one to four millimeters for most other RF devices. By reaching deeper levels of the dermal layers versus previous generations of RF-based devices, Morpheus reconstructs the cell matrix at a more fundamental level. (The "matrix" connection inspired the product name Morpheus, from a main character in the *Matrix* film franchise. However, in a curious – though likely unintentional – nod to Edgar Cayce, the "Sleeping Prophet," Morpheus is also the ancient Greek god of sleep and dreams.)

The company currently offers the Morpheus (full body treatment), Morpheus8 (facial treatments), and Morpheus8 Body (full body treatment) devices based on this platform.

Unlike prior generations of single or dual probe RF devices, the Morpheus delivers energy through the use of 12 to 40 microneedle probes. These microneedles deliver smaller, less-intense microlesions that heal faster than the lesions created from one or two needles in traditional RF devices.

InMode's Morpheus microneedling devices don't necessarily displace its previous generation of bipolar RF-based devices. Instead, clinical research and real-world case studies indicate highly effective treatments from combining InMode's bipolar devices, like BodyTite, with skin tightening from Morpheus.

The following before-and-after pictures published in the *Aesthetic Surgery Journal* in 2019 show one patient's powerful transformation following a treatment using InMode's BodyTite combined with the Morpheus8 Body device:

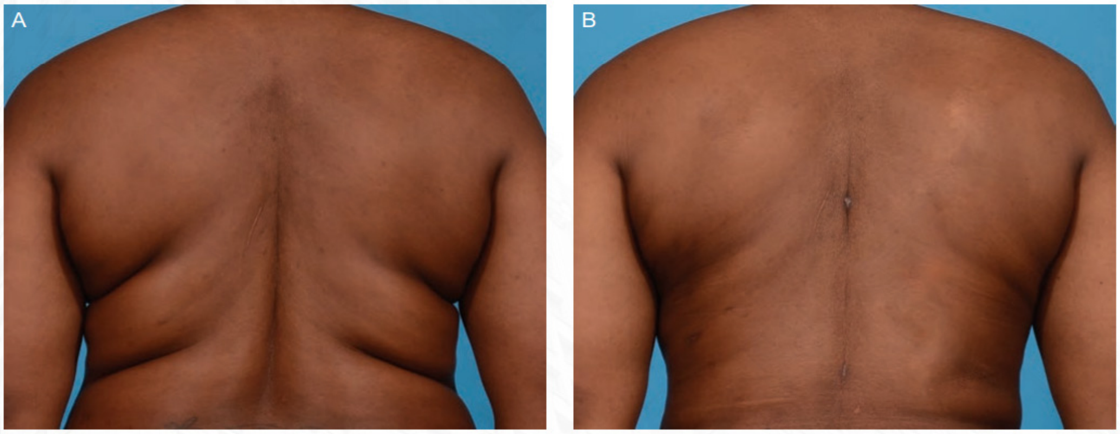


Figure 6. (A) This is a 44-year-old woman who was bothered by backrolls. (B) Six months after treatment of backrolls with bipolar radiofrequency and radiofrequency microneedling.

InMode Goes Viral

It's one thing for obscure medical journals to report on the efficacy of a beauty treatment. But it's a whole different story when one of the world's most influential media personalities touts the procedure to over 300 million adoring fans. That's what happened in August 2022, when Kim Kardashian sent out an Instagram post calling the Morpheus8 a "game changer" and her "fave laser" (even though the Morpheus8 is not technically a "laser").

Kardashian's Morpheus8 endorsement went viral, picking up coverage across major entertainment and beauty media outlets including E!, People, Glamour, and Women's Health:

InMode didn't pay Kardashian for her endorsement. Her social media post was a genuine endorsement of the stellar results delivered from InMode's Morpheus8 device. The physician who performed the surgery, Dr. Ashkan Ghavami, verified the organic nature of Kim's endorsement in an interview with *Elle*:

> *"There is no gimmick here. [Kardashian] trusts our recommendations and treatments so much that she actually decided to film herself having Morpheus8 done in our office without us knowing that she took photos during her session. She felt so great about her Morpheus8 results in our office that she was candid with her followers and decided to share her experience."*

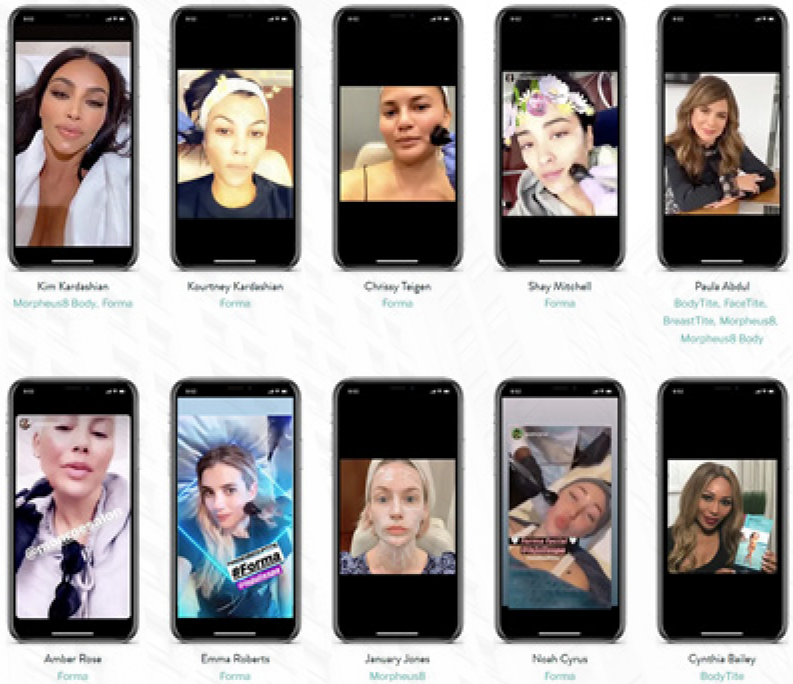
In November 2022, during a conference with analysts in London a few months later, InMode's CEO noted that the company received 10,000 calls on the day of Kardashian's viral post – completely overwhelming InMode's sales staff.

While Kardashian's is the most notable endorsement, it's far from the only one. Famous actress and singer Jessica Simpson posted the following rave review of her Morpheus8 treatment on Instagram, saying:

> *"After my 3rd baby, Morpheus8 was my saving grace to tighten up my skin. I feel great and ready for fun in the sun!"*

In October 2022, one of America's largest fashion and entertainment magazines, Cosmopolitan, ran a cover story featuring Lindsay Lohan. In the story, Lohan talked up the Morpheus8 procedure, saying, "I'm big on non-intrusive facial experiences… I just started Morpheus8, which I'm obsessed with."

Beyond Morpheus8, many of InMode's other devices have received rave public reviews from high-profile celebrities. The company's Forma skin-rejuvenation device has earned public endorsements from Emma Roberts, rapper Amber Rose, Britney Spears, and Chrissy Teigen. InMode's BodyTite has been touted by the likes of influencer Sarah Leann, comedian Mia Jackson, and model Paige Hathaway.



The social media posts from the world's biggest celebrities often get amplified by other press outlets, forming an incredibly powerful, organic marketing machine.

InMode amplifies this free press with its own marketing operation. The company has a dedicated press team designed to capitalize on the momentum created from moments like Kim Kardashian's viral post – promoting the story to press outlets for maximum brand amplification.

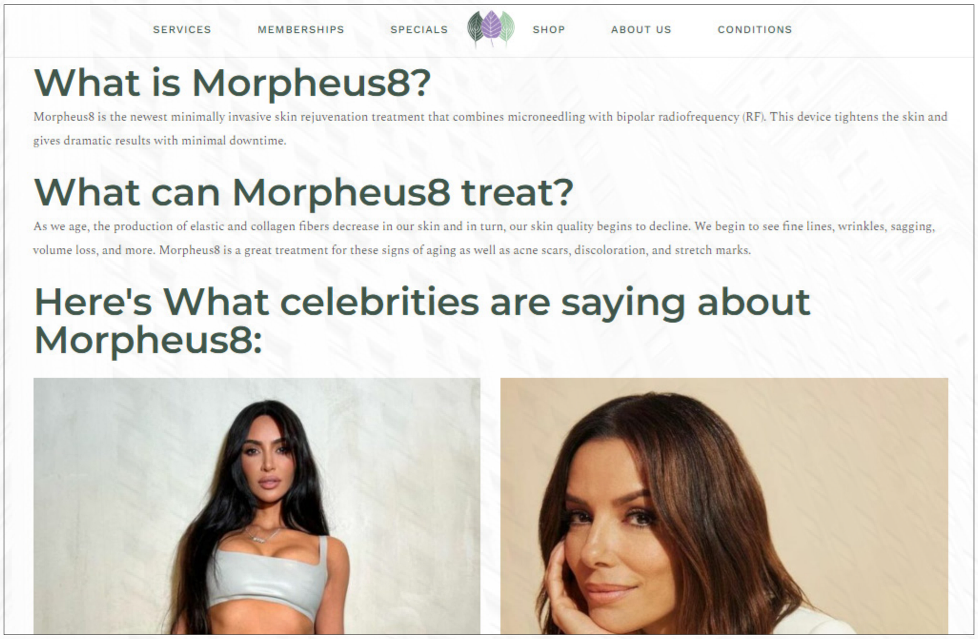
InMode also invests in providing doctors with tools and support for ensuring the investments into InMode devices generate a healthy financial return. This includes providing marketing materials, case studies, clinical research, workshops, and social media support.

Once InMode pulls doctors into its ecosystem, it then unlocks an additional source of free sales and marketing exposure for its products.

InMode's Secret Weapon: A Highly Motivated, Commission-Free Sales Force

InMode's secret sales weapon comes in the form of thousands of doctors offices around the world. Once a physician's office commits six figures toward an InMode device, it then has a big incentive to promote the device's efficacy for its own marketing purposes. This is the ultimate, free hidden sales force that's always humming in the background, as doctors promote InMode's brand at their own expense.

InMode benefits from powerful real-world case studies showing the efficacy of their devices, posted across the internet on physician websites. Doctors offices also help amplify the celebrity endorsements of InMode's devices, as shown in the following example from the website of Aesthetica Medical Spa & Plastic Surgery in Utah:



Finally, physicians also invest in spreading awareness of InMode's brand to the target-rich and captive audiences in their waiting rooms. At the August 2023 UBS Medtech conference – an industry gathering for medical device companies to engage with stock analysts – one analyst relayed the following anecdote of being fed a constant stream of InMode advertisements in the waiting room of his dermatologist office:

> *"So once they [doctors] are invested in buying in the Morpheus, or whatever – FaceTite, BodyTite – they're going to put the money behind marketing. I was at my dermatologist office, and I was captive in the examination room, and all these InMode procedures are scrolling across the screen. So I think that's something that people miss."*

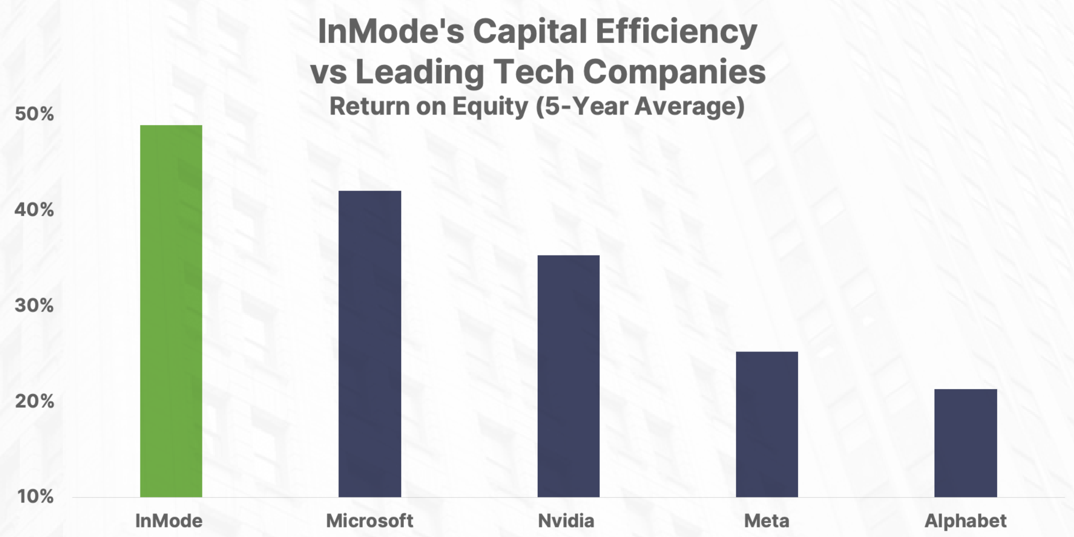
By creating best-in-class technology that delivers excellent outcomes for patients, and investing in the success of InMode's direct customers – physicians – InMode has developed a powerful flywheel. Successful real-world case studies from its treatments fuel market awareness, leading doctors offices to invest in the company's equipment. The doctors then promote InMode's devices in order to earn a return on their investment, leading to further market awareness.

InMode's World-Class Capital Efficiency

InMode's powerful flywheel drives some of the highest and most consistent profit margins you'll find anywhere in the public markets. The company's gross profit margins (i.e., the percent of revenue after factoring in direct costs of goods sold) have remained remarkably consistent at 85%. After factoring in sales, marketing, and other administrative costs, the company has averaged a 39% profit margin over the last five years.

The company is also extremely capital efficient. InMode doesn't engage in the lower-margin business of manufacturing its devices. Instead, it outsources this capital-intensive activity to third parties. That's how InMode spends a staggeringly low $1 million per year in capital expenditures, generating 40% FCF margins and a 49% ROE.

This puts InMode's economics on par with today's most dominant technology monopolies:

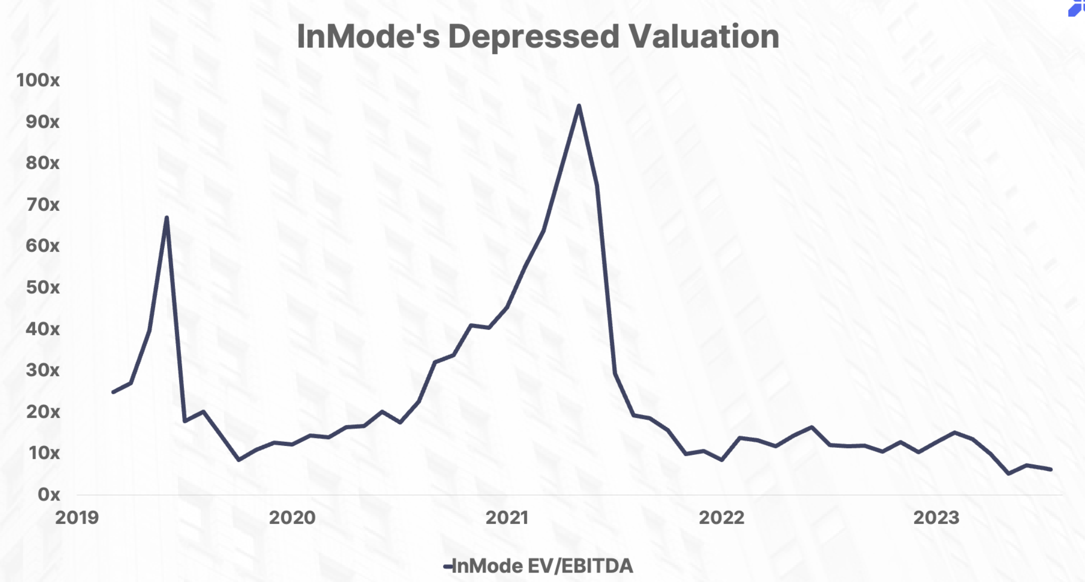


InMode's stellar economics are a testament to its management team. As co-founder and CEO Moshe Mizrahy once explained in a call with analysts: Each new product the company develops must meet a strict threshold for profit margins – the core focus that's baked into the company's DNA. He said:

> *"From the drawing board, from the first day, when we start to develop the product, we think about the gross margins. And that's what we do. That's the philosophy and DNA of this company. As far as the cost of manufacturing is concerned, we have also been very productive."*

A Rare and Deep Discount for InMode Shares

Normally, a company with InMode's incredible economics, dominant competitive position, and excellent management team would command a premium valuation. Today, however, the business trades at a rock-bottom price of less than 6x EV/EBITDA (enterprise value to earnings before interest, tax, depreciation and amortization). That's near the lowest levels the stock has ever traded, and a nearly 95% drop from its formerly high-flying valuation of over 90x EV/EBITDA in 2021.



Two external factors have caused the weakness in InMode's share price, which we believe will eventually pass.

The most recent catalyst was terrorist group Hamas' invasion of Israel in mid-October. The outbreak of hostilities hit Israel-based companies across the board. InMode's stock price fell from a pre-invasion price of $29 per share to as low as $19 by late October, before rebounding to around $21.

Inmode headquartered in Israel, as are the manufacturers that make its products. Fortunately, InMode and its manufacturers are located to the north of the country, removed from the fighting on Israel's southwestern border that it shares with the Gaza Strip. During InMode's third-quarter earnings call on November 2, management confirmed that its headquarters and production facilities have been unaffected by the fighting, and that they don't expect any interruption in their business.

InMode's management also noted the company has three quarters' worth of product inventory located throughout the U.S., Europe and in Israel. This should allow the company to continue meeting a substantial portion of its global demand should it suffer any short-term manufacturing disruptions.

The second factor weighing on InMode's share price is the rise in interest rates over the last 18 months. Recall that InMode's average device costs approximately $130,000. Most doctors don't pay this price upfront, but instead finance the purchase through equipment leases. These leases allow physicians to make monthly payments while using InMode's equipment, with the option to purchase the equipment at the end of the lease period.

These equipment leases come with a financing rate that adds interest expense to the cost of the monthly payments. As rates have risen, the interest rates on leases used to finance InMode's equipment have shot up to 14% to 15% – a record high, and a big jump versus prior rates in the single-digits. These high financing rates have increased the monthly payments required to lease InMode's devices, hurting demand.

With inflation slowing and the Federal Reserve hinting at rate cuts, today's high interest rates should eventually moderate. Falling rates will lower the cost of leasing InMode's devices, and thus boost demand.

InMode's War Chest Could Jumpstart Growth

In the event that interest rates remain higher for longer, InMode is well-positioned to thrive in a challenging macro environment. With a rock-solid balance sheet that includes $675 million in cash… and virtually no debt, InMode has several opportunities to capitalize on further weakness across the industry.

One of InMode's options includes a substantial share repurchase. The company's current cash balance is equal to one-third of its $1.8 billion market cap. One hedge fund that holds InMode shares recently lobbied for a large share buyback to take advantage of the company's "deeply discounted price" **in this letter**.

However, on InMode's November 2 earnings call, CEO Mizrahy explained that he does not favor a large share repurchase. He said that instead, the company is exploring acquisition targets to use its cash.

InMode's management has delivered stellar results for shareholders to date, including over 20% annualized gains since the company went public. So we have reason to believe management will continue making wise capital-allocation decisions going forward, including making prudent acquisitions to boost its growth.

We also expect InMode will retain its best-in-class 40% net profit margins, given management's commitment and track record in maintaining these margins to date. So, the biggest question comes down to the company's future growth rate. Since InMode has matured and become the largest player in its industry, we expect its growth will moderate from its previous 54% annual rate. But given its best-in-class technology, sizable cash balance to make acquisitions, and a large addressable market, we believe double-digit growth rates remain possible.

Analyzing the Upside Potential and Downside Risks

In the table below, we show a range of potential upside scenarios for InMode through 2030. We include a range of 10% to 25% annual revenue growth. We also assume InMode's currently depressed valuation of roughly 11x earnings will revert back to a market multiple of 20x. For a frame of reference, InMode has traded at an average P/E multiple of 27x since going public.

Potential InMode Scenarios Through 2030

Annual Revenue Growth	10%	15%	20%	25%
2030 Revenue (Millions)	$974	$1,330	$1,792	$2,384
2030 Net Income at 40% Margin (Millions)	$390	$532	$717	$954
Share Count (Millions)	83	83	83	83
Earnings per Share (EPS)	$4.70	$6.41	$8.63	$11.49
P/E Multiple	20	20	20	20
Share Price	$93.91	$128.19	$172.68	$229.80
Total Return	343%	505%	715%	984%
Compounded Annual Return	24%	29%	35%	41%

Source: Porter & Co. Projections

As the table shows, if InMode can deliver annual revenue growth of between 10 - 25% through 2030, the shares could deliver a total return of 343% to 984%. That translates into a world-class annual compounding rate of between 24% and 41%. The total addressable market for RF-based cosmetic devices is expected to nearly triple from $1.3 billion in 2022 to $3.7 billion by 2031. Given InMode's dominant industry position and track record of steadily taking market share, we believe this range of future growth scenarios lies within the realm of possibilities.

While these upside scenarios for InMode shares are highly compelling, there are also significant downside risks involved. The company operates in a highly competitive market, with ever-evolving technologies. While InMode has demonstrated a strong track record as the industry leader in technological development so far, there's no guarantee that it will maintain its leadership.

Investors should also be mindful of the growing risks of a potential escalation in the conflict between Israel and Hamas. This could spill over into a broader regional conflict, potentially involving Lebanon or Iran. A broader conflict could put InMode and its manufacturers at significant risk of a business interruption.

The final risk to note is that InMode operates as an Israeli-based company that qualifies for the "foreign private issuer" exemption in the U.S. This means that InMode is exempt from many of the U.S. securities laws and governance rules that apply to U.S.-based publicly traded companies.

For these reasons, we're assigning InMode with our highest risk rating level of five. This means investors should not allocate more capital in this investment beyond what they are willing to lose.

We'll place InMode into the high-risk/high-reward "Exponential Growth" category within our tracking portfolio.

Action to Take: Buy InMode (Nasdaq: INMD) up to $25 per share

New to the Porter & Co. Portfolio? Start With Our Top 3 "Best Buys" Today

Our goal at Porter & Co. is to bring you world-class investment research, focused on "inevitable" businesses that you can buy and hold forever. This is the surest and safest path to building permanent wealth.

While we don't believe in timing the market, we do keep a constant eye out for bargains. In each edition of The Big Secret, we highlight three current portfolio picks that are at an attractive buy point. In addition to today's recommendation, we suggest you focus on these:

1. **Franco-Nevada (NYSE: FNV)** – the **"Gold Digger" That Gets Paid to Do Nothing** – is the leading gold royalty company. Franco-Nevada provides financing for mining companies to do the capital-intensive work of pulling rocks out of the ground, in exchange for a percentage of the mine's output. As a result, Franco-Nevada is highly capital efficient, generating 58% free cash flow margins. Its world-class management team has established one of the best track records in the industry. FNV shares have sold off since October, when the Panamanian government announced the shutdown of a large copper mine, which is one of the company's largest royalty assets. The decline is overdone as the market capitalization of FNV fell by $6.2 billion while the mine is worth roughly $5 billion, effectively pricing in a total loss of the mine. Meanwhile, with gold prices approaching record highs, the rest of FNV's portfolio is firing on all cylinders. As a result, the shares trade near their lowest valuation on record. (We broke down the latest developments in a recent Portfolio Update.)

2. **Philip Morris (NYSE: PM)** owns the international rights to the world's leading traditional tobacco brand, Marlboro. Over the last decade, the company has invested heavily in less-harmful alternatives to traditional tobacco products. These investments have made Philip Morris the global leader in less-harmful nicotine consumption, including its hit IQOS and ZYN brands. Unlike most traditional tobacco companies suffering from declining sales, Philip Morris' smoke-free business is delivering double-digit revenue and earnings growth. The company is incredibly capital efficient, with 20% returns on equity and 40% returns on invested capital. It's also a recession-proof business, and trades at an attractive valuation of just 15x earnings, with a 5.5% dividend yield.

3. **Viper Energy Partners (Nasdaq: VNOM)** is an oil and gas royalty company – the best business in the energy sector, and the **Secret Behind T. Boone's Fortune**. Unlike oil and gas producers, VNOM never invests any capital searching for oil or drilling holes deep into the earth. It simply owns the land upon which other companies drill – and collects a percentage of the cash flow. That makes it one of most capital efficient businesses you'll find anywhere, with 80% free cash flow margins. VNOM funnels its profits directly to shareholders, instead of back into the ground. VNOM currently trades at a 12% free cash flow yield and pays out a 7.3% dividend.

The Big Secret on Wall Street PORTFOLIO

ENERGY & COMMODITIES	Ticker	Description	Purchase Date	Cost Basis	Closing Price	Yield	Income Received	Total Return	Status	Risk Rating (1 - 5)
EQT CORPORATION	EQT	U.S. Gas-Focused E&P	06-02-2022	$48.87	$37.05	1.23%	$0.91	-22.33%	Buy Under $50	4
VIPER ENERGY	VNOM	Oil and Gas Royalty	09-01-2022	$29.68	$31.25	7.30%	$2.24	12.84%	Buy Under $34	3
BWX TECHNOLOGIES, INC.	BWXT	Nuclear Power Equipment	12-22-2022	$58.05	$78.03	1.18%	$0.92	36.00%	Buy Under $80	3
BLACK STONE MINERALS	BSM	Oil and Gas Royalty	02-16-2023	$15.90	$16.16	11.76%	$0.52	4.92%	Buy Under $18	2
BITCOIN	BTCUSD	Cryptocurrency	05-11-2023	$27,011.85	$46,328.60	0.00%	$0.00	71.51%	Buy Under $50,000	4
PEABODY ENERGY	BTU	Coal Mining	06-22-2023	$21.29	$23.91	1.25%	$0.00	12.31%	Buy Under $25	4
CNX RESOURCES	CNX	U.S. Gas-Focused E&P	09-28-2023	$22.82	$19.83	0.00%	$0.00	-13.10%	Buy Under $30	3
BATTLESHIP STOCKS										
CREDIT ACCEPTANCE CORP	CACC	Consumer Finance	07-28-2022	$560.28	$535.70	0.00%	$0.00	-4.39%	Buy Under $600	3
NOVO NORDISK	NVO	Pharmaceuticals	10-27-2022	$53.30	$106.69	3.31%	$2.07	104.06%	Hold	2
WINMARK CORPORATION	WINA	Specialty Apparel Stores	09-15-2022	$217.60	$371.01	0.86%	$16.20	77.95%	Hold	1
FRANCO-NEVADA CORP	FNV	Precious Metals Streamer	05-11-2023	$154.77	$105.91	1.28%	$1.02	-30.91%	Buy Under $125	2
PAYPAL	PYPL	Payment Processor	07-20-2023	$73.02	$61.35	0.00%	$0.00	-15.98%	Buy Under $90	3
FOREVER STOCKS										
PHILIP MORRIS	PM	Tobacco Maker	07-14-2022	$89.62	$95.15	5.47%	$7.68	14.74%	Buy Under $105	1
DOMINO'S PIZZAS INC	DPZ	Restaurants	02-27-2023	$300.00	$411.70	1.07%	$3.63	38.44%	Hold	3
DEERE & COMPANY	DE	Agricultural Machinery	08-31-2023	$410.94	$390.22	1.38%	$1.35	-4.71%	Buy Under $450	3
DIAGEO PLC	DEO	Alcoholic Beverages	12-14-2023	$145.72	$143.95	3.49%	$0.00	-1.21%	Buy Under $160	3
INCOME & DISTRESSED DEBT										
SABA CAPITAL INCOME & OPPORTUNITIES FUND	BRW	High Yield Bond Fund	03-16-2023	$7.70	$7.46	13.67%	$0.77	6.90%	Buy Under $9	3
OAKTREE SPECIALTY LENDING CORP	OCSL	Specialty Investments	03-30-2023	$18.57	$21.18	10.39%	$1.72	23.32%	Buy Under $22	2
PROPERTY & CASUALTY INSURANCE										
W.R. BERKLEY	WRB	P&C Insurance	05-25-2023	$56.10	$72.88	0.55%	$1.22	32.09%	Buy Under $62	2
PROGRESSIVE CORPORATION	PGR	P&C Insurance	06-08-2023	$131.08	$168.02	0.24%	$0.20	28.33%	Buy Under $160	2
CHUBB LIMITED	CB	P&C Insurance	06-08-2023	$191.60	$227.71	0.18%	$2.58	20.19%	Buy Under $220	2
SKYWARD SPECIALTY	SKWD	P&C Insurance	06-16-2023	$24.66	$32.92	0.00%	$0.00	33.50%	Buy Under $35	2
EXPONENTIAL GROWTH										
TELLURIAN INC.	TELL	U.S. LNG Exporter	06-16-2022	$3.82	$0.67	0.00%	$0.00	-82.46%	Buy Under $5	5

CLOSED POSITIONS	Ticker	Description	Purchase Date	Cost Basis	Sell Price	Yield	Income Received	Total Return	Status
HOVNANIAN ENTERPRISES	HOV	Homebuilder	06-30-2022	$42.79	$36.50	0.00%	$0.00	-14.70%	Sold Sept. 29, 2022
ACTIVISION BLIZZARD	ATVI	Video Games	03-02-2023	$77.71	$90.99	0.00%	$0.00	17.09%	Sold July 11, 2023
AMERIGO RESOURCES	ARREF	Base Metals	03-30-2023	$1.21	$0.91	8.84%	$0.04	-21.90%	Sold Oct. 12, 2023
DREAM FINDERS HOMES, INC.	DFH	Homebuilder	04-27-2023	$14.89	$20.69	0.00%	$0.00	38.95%	Sold Oct. 12, 2023
QURATE RETAIL, INC.	QRTEP	8% Cumulative Preferred Stock	01-19-2023	$40.64	$29.28	27.32%	$6.00	-13.19%	Sold Oct. 12, 2023
ANNALY CAPITAL MANAGEMENT	NLY	Real Estate Investment Trust	02-02-2023	$24.12	$17.78	19.80%	$1.30	-20.90%	Sold Oct. 12, 2023
MICROSTRATEGY INC	CUSIP: 594972AC5	2025 Convertible Bond	10-13-2022	$758.00	$1,371.14	0.55%	$7.50	81.88%	Sold Nov. 9, 2023
ALTRIA	MO	Tobacco Maker	07-14-2022	$41.63	$42.03	9.33%	$4.74	12.35%	Sold Nov. 30, 2023
HALL OF SHAME									
ICAHN ENTERPRISES	IEP	Specialty Investments	12-08-2022	$50.65	$20.63	38.78%	$4.00	-51.37%	Sold May 25, 2023
ALTISOURCE ASSET MANAGEMENT	AAMC	Asset Management	07-06-2023	$58.00	$10.02	0.00%	$0.00	-82.72%	Sold Aug. 17, 2023

Saba Closes Discounts and Pays Shareholders

Shares of **Saba Capital Income & Opportunities Fund (NYSE: BRW) have** gained 2.8% since November 10, when we provided our **last portfolio update** of the fund and recommended buying shares up to $9.

In that update, we noted that closed-end funds ("CEFs") were trading at large discounts across the board and that Saba was poised to benefit.

On December 26, BRW reached agreements with three CEFs to tender up to half of those funds' shares for cash at 100% of par. This means the funds will purchase back shares for 100% of their net asset value ("NAV"). And because these shares trade at significant (an average of 15.63%) discounts to NAV, it will result in gains for shareholders, including Saba.

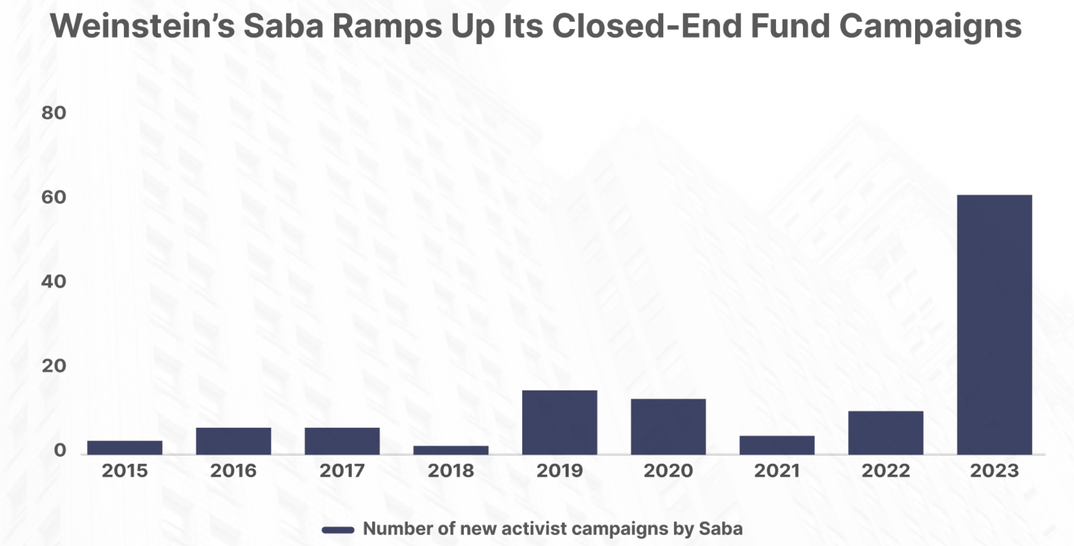
Since then, Saba has reached agreements with several other CEFs and announced it will issue a special dividend in January.

Recall that Saba specializes in identifying and buying CEFs trading at large discounts to their NAV. As of December, according to Bloomberg, nearly 70% of Saba's portfolio consists of CEFs. Saba attempts to unlock value through various mechanisms, including activist shareholder campaigns that can force a liquidation of assets or a conversion of a CEF to an open-end fund. By converting CEFs to an open-end fund, or liquidating the assets and returning proceeds to investors, the share price will converge with the NAV. So when CEFs are trading at a significant discount to NAV, this creates a target-rich environment for Saba to unlock gains for its investors.

Saba also received two positive rulings in its cases against investment giant BlackRock and Nuveen, a subsidiary of financial planning firm TIAA. The rulings determined that a total of 16 CEFs violated the Investment Company Act by adding control-share rules that deter proxy battles and make it harder for activists like Saba to get involved.

Saba owns several funds that benefit from this ruling, and it could instigate activist campaigns as it attempts to close discounts to NAV to capture gains.

In 2023, Saba Capital Management was involved with 64 total activist campaigns, making it the top activist by a considerable margin, compared to Elliott Management, which took part in 17 activist campaigns. According to David Cohne, a mutual fund analyst at Bloomberg Intelligence, if funds like Saba erased all the CEF discounts, investors in these funds could see gains of $17 billion. That's why Saba went on a buying spree in 2023, more than tripling its exposure to CEFs. Saba is well-positioned to profit off the overall $17 billion discount CEFs in 2024.



Source: Bloomberg Intelligence

As it benefits from these 2023 positive rulings, Saba announced a $0.114 special dividend in addition to its monthly dividend of $0.085 in January. BRW currently yields 13.7%.

By investing in Saba, we're betting on proven activist investor Boaz Weinstein. BRW trades at a 6.65% discount to NAV today and we continue to recommend buying BRW up to $9 per share.

Bitcoin's Big New Development

Since recommending **Bitcoin (BTCUSD)** on May 12, 2023, the cryptocurrency has gained more than 70%. A big driver of the recent rally in Bitcoin has come from anticipation about the potential approval of Bitcoin ETFs, which could make the cryptocurrency more accessible for large pools of institutional capital.

Bitcoin ETFs are exchange-traded funds that track the value of Bitcoin and trade on traditional stock exchanges, like the NYSE, rather than the unregulated exchanges cryptos have traded on previously. On January 10, the Securities and Exchange Commission ("SEC") officially approved the first Bitcoin ETFs, including 11 offerings from BlackRock and Fidelity Investments.

The approval paves the way for large institutions that manage trillions of dollars – such as pension funds, financial advisors, broker-dealers, and endowments – to invest in Bitcoin. Many of these institutions were previously unable or unwilling to buy Bitcoin, due to investment mandates. The SEC approval of Bitcoin ETFs now opens the door for these large capital allocators to buy the cryptocurrency.

Standard Chartered Bank estimates that these funds could contribute between $50 to $100 billion of inflows into crypto ETFs – which is 6% to 8% of Bitcoin's current market cap. This would result in substantial buying pressure for Bitcoin. Some analysts expect that the rise in demand could push Bitcoin prices from the current price of around $46,300 to $200,000 by the end of 2025. Ultimately, Bitcoin ETFs would further democratize Bitcoin, by making it easier for institutions and retail investors to add exposure to the cryptocurrency.

Porter & Co. readers may recall, Bitcoin is often referred to as "**electronic gold**." The currency distinguishes itself from traditional currencies and commodities by placing a hard cap on its supply at 21 million coins. Unlike gold, where production increases with higher prices, Bitcoin's scarcity makes it a deflationary currency, potentially increasing purchasing power over time. Bitcoin operates on a decentralized, peer-to-peer network, immune to government control, making it a legitimate alternative store of value.

With a hard cap on its supply creating inherent scarcity, Bitcoin's value is expected to rise, particularly with periodic "halving" events. Bitcoin's next halving is expected in April 2024.

Halving occurs every four years, when the amount of Bitcoin supply available to unlock through mining is cut in half. Currently, there are more than 19 million Bitcoins already mined, leaving less than 2 million coins – or about 11% – of additional future supply growth.

With limited future growth, and the potential for a flood of new demand from institutional investors from the newly launched Bitcoin ETFs, we remain bullish on the price of Bitcoin in 2024. We continue to recommend buying Bitcoin under $50,000.

To be clear, Porter & Co. will not be recommending a Bitcoin ETF – we believe the best way to get exposure is by owning the currency directly. For those new to buying Bitcoin directly, we've created a guide you can find **here**.

Porter & Co.

Mailbag

In *The Big Secret on Wall Street* mailbag, Porter answers letters from readers. He cannot offer individual investment advice, but can respond to general questions.

Please email us at mailbag@porterandcompanyresearch.com to have your questions answered. We'd love to hear from you!

> *Today's first letter comes from G.S. who writes:*
>
> *Hey Porter, Congrats on Porter & Co.*
>
> *I am glad to join the Partner Pass program.*
>
> **Question:** *Do you have any guidance on portfolio percentages one should think about with all of the new portfolios? Something like Stansberry's Alliance program that suggests what percentage of my total portfolio should be in each category.*
>
> *I'm a recent retiree (by force) and am looking at spending much more time investing, and also started a book-publishing business (not financial). So I am looking to create active income and long term wealth.*
>
> *Good to hear your voice and welcome back!*
>
> **Porter's comment: Thanks for your note and your support.**
>
> **We haven't yet created an allocation service or a model portfolio like The Total Portfolio because we've only been publishing (at Porter & Co.) for about 18 months. It takes a while for me to recruit great talent and get enough vertical research channels established to put together a 12-to-20-stock fully allocated portfolio.**
>
> **Hope that makes sense.**
>
> **But, stay tuned! We're aiming in that direction.**

The next letter comes from S.V. who writes:

Porter & Co.

Hi Porter,

Here's my brief memo to a very busy person with a beautiful mind. Congrats on beating back the chaos. It's hard and it hurts and now you're stronger.

I'm a retired cybersecurity software executive and an Alliance member who values your personal insights and opinions. I've missed you.

My questions/asks for the coming rough weather:

1. Like many, I see the need for a global diversification plan which specifies stocks, bonds, and cash held in banking institutions and/or brokerages outside of U.S. jurisdiction. I'm looking for a reputable "relocation specialist" to navigate the alternate resident visa and second passport options, and this will include decisions on where to place my resources.

Will you consider issuing a note providing your opinion on the best global banks and brokerage institutions?

2. Will you consider issuing a note with your thoughts on the coming U.S.-dollar devaluation and strategies to navigate that? You know best what your readers will appreciate. A portfolio of assets in currencies based outside of U.S. jurisdiction is at the top of my list.

3. And last, allocation percentages in your portfolios will be greatly appreciated.

Porter's comment: Thanks for your very kind words. As for your questions:

1. Regarding global relocation. That's something I am personally working on myself and I expect to share my journey in my writing at Porter & Co., though I have no specific timeline for that content yet because I am only beginning this process.

2. Re: dollar devaluation. I've been writing about the devaluation of the dollar for virtually my entire career. And it's been devalued every year of my career too! Apparently you've missed a big part of what I've been trying to communicate: the best way to protect yourself from a weaker dollar is by owning highly capital efficient companies.

As an example, Coke's IPO, at $40 per share, was in 1919. Over the past 105 years the dollar has been devalued by roughly 2% a year. Thus $1 worth of stuff now costs $17 – a loss of roughly 95% of the dollar's purchasing power. But, what if, instead of saving in dollars, you'd saved your money in Coke stock?
Your single $40 share of Coke would now be 327,023 shares thanks to reinvesting the dividends and 11 different "splits" of the shares, beginning with a 4:1 split in 1935 – in the middle of the Great Depression! Thus today,

your single $40 investment in Coke would now be worth more than $20 million – a 500,000x return! Even adjusted for inflation, that's still a "real" return of 25,000x. No other kind of investment comes close to these kinds of returns.

3. Re allocation: We don't offer allocation yet as part of our service. We do offer a risk rating, which you can use to drive your allocations. I would also recommend using TradeStops software for precise risk-adjusted allocations.

Thanks again for your note and Happy New Year!

Porter Stansberry

Porter & Co.
Stevenson, MD

P.S. If you'd like to learn more about the Porter & Co. team, you can get acquainted with us **here**. You can follow me (Porter) on **X (formerly Twitter)** here:

@porterstansb

Porter & Co.