



November 8, 2023

The Board of Directors
InMode Ltd.
Tavor Building, Sha'ar Yokneam
P.O. Box 533
Yokneam, 2069206, Israel

Dear Members of the Board:

A fund managed by Butler Hall Capital LLC ("Butler Hall", "we", or "our") is a shareholder of InMode Ltd. ("INMD" or the "Company"). The Company has been given an exceptional opportunity to repurchase shares at what we believe to be a deeply discounted price as compared to our assessment of intrinsic value.

Since 2019, INMD has exhibited revenue growth of approximately 220% (34% CAGR) and EBITDA growth of 270%^[1]. Despite this impressive track record, the stock currently trades at approximately 5x earnings (ex-cash) and its enterprise value has been roughly flat since the Company's 2019 initial public offering^[1].

We believe the decline in InMode's stock price year-to-date can be attributed to factors outside the Company's control, mainly: (a) rising interest rate environment that has pressured large capital equipment purchases, and (b) the unfortunate geopolitical events in Israel. Nonetheless, prudent capital allocation decisions rest firmly within the Company's control and should be underpinned by fundamental analysis and facts rather than conjecture.

Buyback Commentary:

On INMD's November 2nd, 2023 earnings call, management provided several reasons against share repurchases. Firstly, the Company repurchased shares in the past and concluded that the buyback "did not help at all." Secondly, the Company referenced a competitor that had recently announced a buyback authorization only to see its stock decline by 35% in the period after such an announcement^[2]. Therefore, INMD seems to have concluded that the "market will forget" about the buyback after a few days and that it is "better off keeping the money." We believe the Company has come to the incorrect conclusion and should reassess the merits of a sizable share repurchase authorization at this time.

1. **Price Matters:** The Company's prior share repurchases were made at a price level that is approximately 85% higher than the stock's most recent closing price^[8]. We are of the opinion that it is incorrect to conclude that prior buybacks are comparable to today, especially with the share price down more than 40% on the year.
2. **Wrong Comparable Company to Analyze:** The competitor referenced on the earnings call last week has burned substantial cash since going public^[2]. Specifically, this competitor lost \$39.6 million of cash flow in 2021, \$110.3 million in 2022, and \$29.6 million in the past twelve months^[2]. This serves in direct contrast to INMD, which has generated more than \$400 million in free cash flow, or nearly 40% of its enterprise value since 2021^[1].

We encourage the Board to analyze the immense value created through buybacks for great business with a similarly high return on capital over time, such as AutoZone, Inc. or Apple Inc. We believe the

decision to buy back stock should be underpinned by a firm view of intrinsic value after careful evaluation of the relative opportunities for the Company's capital. Today, INMD can deploy cash into a growing stock yielding 20%^[1] while still preserving the Company's ability to invest organically in the business. We would also encourage the Company to allocate capital towards buybacks and organic investments first and foremost as compared to any external acquisition opportunities. In fact, we are of the opinion that the Company could be positioned for many years of robust growth on the back of recent developments in glucagon-like peptide 1 ("GLP-1") medication (as discussed below). There is no need to look outward for future growth when arguably one of the public market's largest beneficiaries is trading at such a depressed value.

GLP-1:

While usage is currently limited, we believe that INMD could be one of the largest beneficiaries of GLP-1 medication in the public market today. Multiple GLP-1 medication clinical trials have shown a 15-27% reduction in weight loss^{[3][4][5][6]} for those that have been on the medication for 40-84 weeks^{[3][4][5][6]}. We believe the Company's dominant position in skin tightening treatments will enable it to take advantage of the substantial market opportunity. We were pleased that management agreed during the third quarter earnings call, stopping short of calling it a "gateway drug" and noting that it is "going to have a positive impact" on the Company. The fact that plastic surgeons have coined the phrase "Ozempic face" highlights the substantial pent-up demand for INMD's products.

We believe INMD's business is deeply discounted regardless of the outcome of GLP-1 medication, but the potential cash generation over time from its adoption could dwarf the Company's current enterprise value. Over 40% of the US population is currently obese, translating to more than 110 million Americans that are potential candidates for InMode's skin tightening procedures^[7]. The fact that the market has not yet caught on to what we believe will be a significant benefit to the Company's business, underscores the need to act now and institute a buyback.

Summary:

We believe the Company should immediately announce a buyback of \$550 million, or approximately 30% of the Company's outstanding shares. Doing so in the form of an accelerated share repurchase or tender would drive, in our estimation, over 30% accretion in earnings per share. We do not believe there to be an alternative use for the cash on the balance sheet that can drive a similar level of value to shareholders. It would also return the cash balance to the levels seen around the time of the IPO, a level we believe to be more than sufficient to prudently operate the business. The Company has done a fantastic job operationally, but due to a confluence of events, the Board has been presented with an opportunity to create enormous value for shareholders. We urge you to act now.

Sincerely,

Brad Lundy
Managing Member, Butler Hall Capital LLC

Michael Rybak, CFA
Partner, Butler Hall Capital LLC

^[1] InMode Company Releases, SEC Public Filings, Bloomberg, Butler Hall Estimates.

^[2] Beauty Health Co. Company Releases, SEC Public Filings, Bloomberg.

^[3] Novo Nordisk. "FDA approves once-weekly Wegovy® injection for the treatment of obesity in teens aged 12 years and older" Press Release. Novo Nordisk, 23 Dec 2023, <https://www.novonordisk-us.com/media/news-archive/news-details.html?id=151389>

^[4] Eli Lilly and Company. "Lilly's tirzepatide shows additional 21.1% weight loss after 12 weeks of intensive lifestyle intervention, for a total mean weight loss of 26.6% from study entry over 84 weeks" Investor.lilly.com, 15 Oct 2023, <https://investor.lilly.com/news-releases/news-release-details/lillys-tirzepatide-shows-additional-211-weight-loss-after-12>

^[5] Jastreboff, Ania M. et al. "Triple–Hormone-Receptor Agonist Retatrutide for Obesity — A Phase 2 Trial." The New England Journal of Medicine, vol. 389, no. 18, 2023.

^[6] Eli Lilly and Company. "FDA Approves Lilly's Mounjaro™ (tirzepatide) Injection, the First and Only GIP and GLP-1 Receptor Agonist for the Treatment of Adults with Type 2 Diabetes." Investor.lilly.com, 13 May 2022, investor.lilly.com/news-releases/news-release-details/fda-approves-lillys-mounjaro-tm-tirzepatide-injection-first-and. Press release.

^[7] National Institute of Diabetes and Digestive and Kidney Diseases. "Overweight & Obesity Statistics." NIDDK, November 2023, niddk.nih.gov/health-information/health-statistics/overweight-obesity. Accessed 2 November 2023.

^[8] Public Filings, including the 20-F, note that INMD has repurchased 2,557,829 shares of stock for a total value of \$95.2 million. Closing price as of 11/7/2023.

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