

Insulet Corporation (PODD)

\$215.67 (As of 02/19/20)

Price Target (6-12 Months): **\$248.00**

Long Term: 6-12 Months

Zacks Recommendation: Outperform

(Since: 02/18/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:D

Value: D

Growth: A

Momentum: F

Summary

Over the past three months, the stock has outperformed the industry. The company witnessed year-over-year improvement in revenues on solid uptake of Omnipod system in the United States and overseas. Pod production at the U.S. manufacturing facility and the full U.S. launch of the Omnipod DASH system drove third-quarter revenues as well. The lifted outlook for 2019 and the company's statement of being on track for meeting its 2021 financial targets buoy optimism on the stock. Insulet exhibited a robust performance in the third quarter with better-than-expected numbers. However, Insulet's exposure to risks associated with a weaker global economy and lower reimbursement rates are concerning. Insulet's dull performance within its Drug Delivery segment due to updated production planning with the company's partner are worrisome.

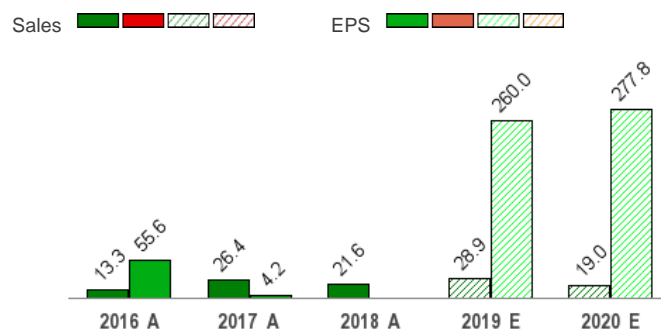
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$219.85 - \$80.43
20 Day Average Volume (sh)	446,283
Market Cap	\$13.3 B
YTD Price Change	26.0%
Beta	0.77
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Products
Zacks Industry Rank	Top 21% (54 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	200.0%
Last Sales Surprise	7.4%
EPS F1 Est- 4 week change	-2.4%
Expected Report Date	02/25/2020
Earnings ESP	0.0%
P/E TTM	634.3
P/E F1	317.2
PEG F1	NA
P/S TTM	19.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	194 E	210 E	223 E	235 E	865 E
2019	160 A	177 A	192 A	198 E	727 E
2018	124 A	124 A	151 A	165 A	564 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.05 E	\$0.09 E	\$0.20 E	\$0.23 E	\$0.68 E
2019	\$0.07 A	\$0.02 A	\$0.09 A	\$0.09 E	\$0.18 E
2018	-\$0.11 A	-\$0.03 A	\$0.03 A	\$0.16 A	\$0.05 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/19/2020. The reports text is as of 02/20/2020.

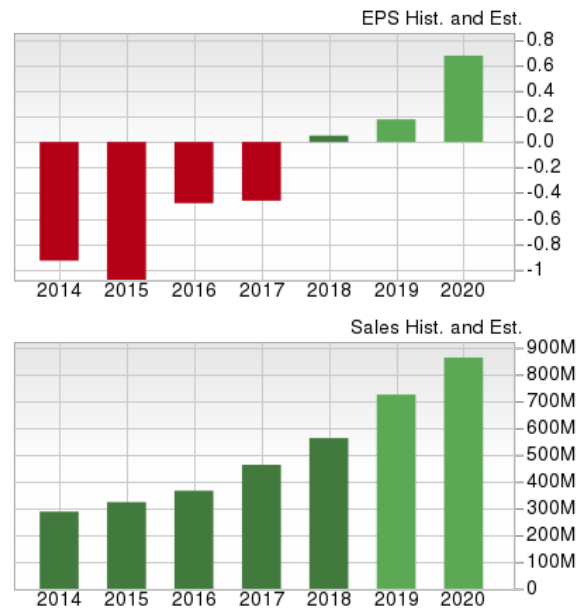
Overview

Insulet Corporation is a leading developer, manufacturer and marketer of the Omnipod Insulin Management System. The system is equipped with a self-adhesive, small and lightweight disposable tubeless Omnipod device along with the wireless and handheld Personal Diabetes Manager (PDM). It is worn on the body for approximately three days at a time and allows virtually pain-free automated cannula insertion and blood glucose meter integration.

Insulet reports revenues through three segments:

The company earns a huge share of revenues from the **Omnipod** System in the United States, Canada, Europe and Israel. It operates in these markets either directly or through intermediaries. In 2018, the company's 56.5% of total revenues came from the U.S. Omnipod sales, while 33.4% was generated from the International Omnipod sales.

Drug Delivery Business (10.1% of total revenues in 2018): Insulet has tied up with pharmaceutical and biotechnological companies which use a customized form of the Omnipod System to deliver a drug at a certain administered volume and over a specified period of time.



Reasons To Buy:

▲ **Share Price Movement:** Insulet has been outperforming its industry over the past three months. The stock has gained 22.7% compared to the industry's 4.9% rise. The company exited the third quarter on a promising note, with better-than-expected numbers. The year-over-year improvement in revenues on the solid uptake of Omnipod system, both in the United States and across international markets, has been encouraging. The recent FDA clearance of the Alternate Controller Enabled (ACE) Infusion Pump is impressive. We are upbeat about the completion of the full-market commercial launch of the Omnipod DISPLAY and Omnipod VIEW apps for use with the Omnipod DASH System. The lifted outlook for 2019 and the company's announcement to be on track for meeting its 2021 financial targets also buoy optimism on the stock.

Insulet continues to gain on solid prospects in the diabetes market. The company is progressing well with respect to its four-pillar strategy.

▲ **Four-Point Strategy Bodes Well:** Insulet has been progressing well with respect to its four-pillar strategy and seems to be well on track to achieve revenues of \$1 billion, 70% gross margin and above-market profitability in 2021.

Notably, the four key strategic initiatives are expanding Omnipod's market access, executing on its innovation roadmap, building the U.S. manufacturing facility successfully, and implementing its plan to sell directly in Europe from July 1 onwards.

▲ **Build Out of U.S. Manufacturing Facility:** Management seems to be particularly upbeat about the manufacturing unit in Acton, Massachusetts. The company was building it to reduce manufacturing costs, increase capacity to accelerate growth as well as overcome supply shortfall issue. Per management, one line in this new manufacturing facility in the United States will deliver up to 50% of the capacity of its total China operations along with around 90% less headcount. In this regard, the company opened its new worldwide headquarters and the U.S. manufacturing facility in May. The company is currently in process of installing its second U.S. manufacturing line with production of sellable items expected by mid-2020.

▲ **Omnipod's Market Access Expansion Continues:** In 2018, CMS issued guidance which required Omnipod to be covered under the Medicare Part D prescription drug benefit program. This move expanded the company's access to around 450,000 individuals with Type 1 diabetes who have Medicare/Medicaid coverage.

Since then, Insulet has achieved several milestones with respect to expanding Omnipod's market access. In this regard, the company is consistently gaining following the full commercial launch of the Omnipod DASH system in the United States earlier in 2019. In the third quarter, the company has successfully expanded the Omnipod DASH' coverage for commercial, Medicare and Medicaid beneficiaries. By the end of the third quarter, the coverage was expanded to greater than 50% of all Medicare beneficiaries.

Further, Insulet is effectively utilizing its pay-as-you-go model and the pharmacy channel for market access expansion. Through these, Omnipod DASH is available with zero upfront cost. This implies greater patient reach for Omnipod DASH. According to Insulet, since DASH's launch, a record number of new users have adopted Omnipod in the United States.

▲ **Omnipod Horizon, a New Focus:** Insulet has been making progress with respect to its development roadmap of the Omnipod Horizon automated insulin delivery system. Recent market research by Seagrove Partners suggested that a large percentage of respondents would choose to switch to Horizon, thereby making it the most successful standalone product. The company has been registering significant progress with its Horizon clinical development work. At the end of the third quarter, Insulet is in the final stages of the Omnipod Horizon development and is well on track to start pivots in the fourth quarter of 2019, so that the technology is ready to be brought to the market by the second half of next year. Insulet continues to offer support to Tidepool's innovation efforts focused on getting an open source, iOS-based loop app and algorithm approved by the FDA. The company is also collaborating to secure Omnipod FDA-approval as a component of the Tidepool Loop automated insulin delivery system.

▲ **Diabetes Market Boom:** An ageing population, unhealthy lifestyle, rising awareness and higher expenditure in healthcare are likely to continue driving the highly competitive diabetes market. Per a report by Mordor Intelligence, the global market for diabetes care devices is projected to reach a value of \$30.25 billion by 2021, at a CAGR of 5.93%.

Also, Insulet projects that around one-third of the Type 1 diabetes population in the United States uses insulin pump therapy. It also believes that less than 10% of the Type 2 diabetes population in the United States, who are also insulin dependent, uses insulin pump therapy.

Risks

- **Sole Reliance on Omnipod System:** Insulet's financial results continue to largely depend on the performance of its lead product — Omnipod System. Per the company, any adverse changes in the market acceptance of the product or worsening of the factors that negatively influence the sale will dent the company's financials majorly.
- **Economic Uncertainty Hampers Growth:** Weaker global economic conditions may reduce demand for Insulet's products, intensify competition, exert pressure on prices, dent supply and lengthen sales cycle. Moreover, a number of countries in Western Europe are facing a liquidity crunch. Insulet is also exposed to the risk of a reduction in healthcare spending in the United States, Canada and Europe due to an economic slump. We are particularly cautious as growth could moderate further if the economic scenario worsens.
- **Tough Competitive Pressure:** Insulet operates in a highly competitive environment, dominated by firms ranging from large multinational corporations with significant resources to start-ups. Also, the competitive and regulatory conditions in the markets where the company operates limit Insulet's ability to switch to strategies like price increases and other drivers of cost increases.

The company's Omnipod System primarily competes with Medtronic's market-leading MiniMed, a division of Medtronic. Notably, MiniMed boasts a major part of the conventional insulin pump market share in the United States. Other suppliers in the United States include Tandem Diabetes Care, Inc.

- **Risk of CMS's Competitive Bid Program:** Beginning Jan 1, 2019, CMS has announced a competitive bidding program across the United States for conventional insulin pumps. The implementation of this program will result in a reduction in reimbursement amount for conventional insulin pumps sanctioned by CMS. Although the Omnipod System will not be directly impacted by this, the company believes it will affect Insulet's ability to negotiate pricing with private payors comparing the price of the Omnipod System to conventional insulin pumps.
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Last Earnings Report

Insulet Delivers Strong Omnipod Revenues in Q3

Insulet Corporation's adjusted earnings per share of 9 cent in third-quarter improved significantly from the year-ago GAAP earnings per share. The reported figure also outpaced the Zacks Consensus Estimate of 3 cents. The quarter's adjustment includes certain one-time, non-cash charge related to the extinguishment of the company's 2021 convertible notes.

Revenues in the third quarter totaled \$192.1 million, beating the Zacks Consensus Estimate by 7.4%. Moreover, the top-line figure jumped 27.1% from the year-ago number.

Insulet delivered third-quarter U.S. Omnipod revenues of \$109.5 million, reflecting an increase of 34% year over year.

International **Omnipod** revenues of \$67.7 million were up 35%.

The **Drug Delivery** business' revenues totaled \$14.9 million, down 21% year over year.

Margins

Gross profit in the reported quarter was \$123.1 million, up 20.7% from the prior-year quarter. However, gross margin of 64.1% contracted 343 basis points (bps). Although total operating expenses of \$106.1 million escalated 11.5% from the year-ago figure, the operating margin expanded 431 bps to 8.9% in the third quarter.

2019 Guidance

For 2019, the company has raised its revenue expectation to the range of \$722 million to \$730 million, from the prior estimate of \$700-\$715 million. This, in turn, suggests growth of roughly 28-29% from the level achieved in 2018 (earlier-expected growth rate was 24-27%). The Zacks Consensus Estimate for revenues is pegged at \$710.2 million, below the guided range.

For the fourth quarter of 2019, Insulet projects revenues in the \$193-\$201 million band, indicating an increase of 17-22% from the year-ago reported number. The Zacks Consensus Estimate for the metric is pegged at \$189.1 million, lower than the guided range.

Quarter Ending **09/2019**

Report Date	Nov 05, 2019
Sales Surprise	7.37%
EPS Surprise	200.00%
Quarterly EPS	0.09
Annual EPS (TTM)	0.34

Recent News

On **Feb 19, 2020**, Insulet inked a partnership with Abbott to integrate Abbott's glucose sensing technology with Insulet's Omnipod Horizon Automated Insulin Delivery (AID) System (Omnipod Horizon System), which is its next-generation tubeless system. Through the collaboration, personalized automated insulin delivery and care will be offered to for diabetic patients.

On **Feb 19, 2020**, Insulet entered a global commercialization agreement with Dexcom to combine current and future Dexcom continuous glucose monitoring systems (CGM) with Insulet's tubeless insulin delivery Pod into the Omnipod Horizon System for automated insulin delivery, which is currently in a pivotal trial.

On **Feb 13, 2020**, Insulet announced a voluntary Medical Device Correction for all Omnipod DASH Personal Diabetes Managers (PDMs), which are distributed globally. This was prompted by the observations made during the company's ongoing quality monitoring processes, which showed that in certain cases the PDMs provided incorrect results.

On **Dec 18, 2019**, Insulet launched the Omnipod DASH Insulin Management System (Omnipod DASH System) in the UK and the Netherlands.

Valuation

Insulet shares are up 25.9% in the year to date period and up 153% in the trailing 12-month periods. Stocks in the Zacks sub-industry are up 2.9% while the Zacks Medical sector are up 2.2% in the year to date period. Over the past year, the Zacks sub-industry is up 10.2% and sector is up 5.1%.

The S&P 500 index is up 4.9% in the year to date period and up 23.3% in the past year.

The stock is currently trading at 14.9X Forward 12-months sales, which compares to 4.1X for the Zacks sub-industry, 2.8X for the Zacks sector and 3.6X for the S&P 500 index.

Over the past five years, the stock has traded as high as 14.9X and as low as 3.7X, with a 5-year median 6.4X. Our Outperform recommendation indicates that the stock will perform above the market. Our \$248 price target reflects 17.2x forward 12-months sales.

The table below shows summary valuation data for PODD.

Valuation Multiples - PODD					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	14.98	4.05	2.84	3.57
	5-Year High	14.98	4.05	3.83	3.57
	5-Year Low	3.72	2.87	2.45	2.54
	5-Year Median	6.41	3.21	2.97	3.00
P/B TTM	Current	88.55	3.23	4.63	4.66
	5-Year High	93.89	4.30	5.04	4.68
	5-Year Low	18.42	2.21	3.44	2.85
	5-Year Median	34.53	2.77	4.31	3.62

As of 2/19/2020

Industry Analysis Zacks Industry Rank: Top 21% (54 out of 255)



Top Peers

Tandem Diabetes Care, Inc. (TNDM)	Outperform
Abbott Laboratories (ABT)	Neutral
DexCom, Inc. (DXCM)	Neutral
Eli Lilly and Company (LLY)	Neutral
Medtronic PLC (MDT)	Neutral
Novo Nordisk A/S (NVO)	Neutral
Sanofi (SNY)	Neutral
Becton, Dickinson and Company (BDX)	Underperform

Industry Comparison Industry: Medical - Products				Industry Peers		
	PODD Outperform	X Industry	S&P 500	ABT Neutral	MDT Neutral	TNDM Outperform
VGM Score	D	-	-	B	C	C
Market Cap	13.33 B	333.78 M	24.59 B	158.03 B	152.49 B	5.32 B
# of Analysts	9	2	13	10	14	6
Dividend Yield	0.00%	0.00%	1.78%	1.61%	1.90%	0.00%
Value Score	D	-	-	C	B	F
Cash/Price	0.05	0.07	0.04	0.03	0.07	0.03
EV/EBITDA	275.51	0.14	14.21	24.44	17.94	-47.68
PEG Ratio	NA	2.74	2.09	2.35	2.74	NA
Price/Book (P/B)	88.55	3.95	3.28	4.94	3.01	31.86
Price/Cash Flow (P/CF)	672.78	21.50	13.59	18.59	15.65	NA
P/E (F1)	317.16	28.43	19.17	24.84	20.21	2,251.00
Price/Sales (P/S)	19.22	5.31	2.68	4.95	4.91	16.12
Earnings Yield	0.32%	0.35%	5.18%	4.03%	4.95%	0.04%
Debt/Equity	6.55	0.07	0.70	0.55	0.49	0.09
Cash Flow (\$/share)	0.32	-0.00	6.93	4.81	7.27	-2.03
Growth Score	A	-	-	C	C	A
Hist. EPS Growth (3-5 yrs)	NA%	11.68%	10.84%	8.90%	6.06%	NA
Proj. EPS Growth (F1/F0)	281.09%	10.66%	7.00%	11.05%	7.83%	107.14%
Curr. Cash Flow Growth	-245.94%	3.62%	7.81%	1.30%	6.26%	75.65%
Hist. Cash Flow Growth (3-5 yrs)	20.79%	9.59%	8.25%	11.45%	15.58%	NA
Current Ratio	7.01	2.77	1.24	1.54	2.77	2.46
Debt/Capital	86.75%	13.50%	42.37%	35.52%	32.80%	8.37%
Net Margin	2.38%	-19.28%	11.69%	11.56%	17.11%	-7.19%
Return on Equity	10.34%	-7.18%	16.86%	18.34%	14.87%	-9.44%
Sales/Assets	0.67	0.62	0.55	0.47	0.34	1.36
Proj. Sales Growth (F1/F0)	19.33%	11.02%	4.05%	5.54%	2.72%	21.74%
Momentum Score	F	-	-	B	C	F
Daily Price Chg	1.60%	0.09%	0.38%	0.54%	0.99%	0.56%
1 Week Price Chg	6.14%	1.15%	1.65%	2.04%	-1.36%	15.07%
4 Week Price Chg	12.80%	-1.33%	0.86%	-2.72%	-6.05%	29.76%
12 Week Price Chg	15.95%	5.71%	4.56%	4.61%	1.16%	29.78%
52 Week Price Chg	151.25%	-3.45%	14.15%	18.30%	22.60%	83.75%
20 Day Average Volume	446,283	148,446	1,989,235	4,183,271	4,637,823	1,685,151
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.67%	0.00%
(F1) EPS Est 4 week change	-2.36%	0.00%	-0.03%	-0.36%	0.64%	47.37%
(F1) EPS Est 12 week change	-3.43%	0.00%	-0.21%	-0.42%	0.64%	64.71%
(Q1) EPS Est Mthly Chg	-20.70%	0.00%	-0.40%	-2.26%	-1.00%	-12.50%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	F
Growth Score	A
Momentum Score	F
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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