

Insulet Corporation (PODD)

\$175.75 (As of 03/27/20)

Price Target (6-12 Months): **\$185.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/18/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: F

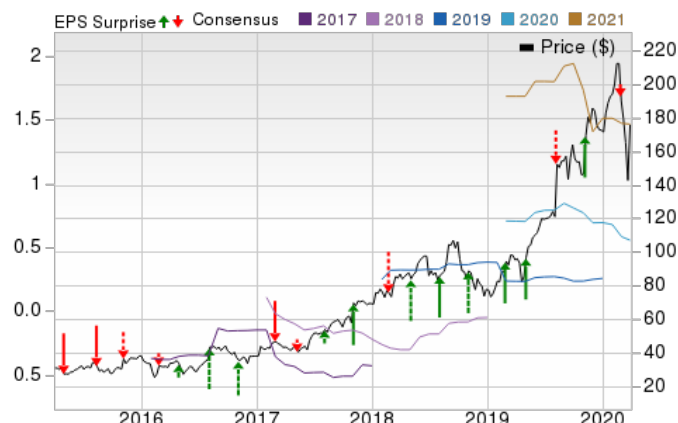
Growth: B

Momentum: F

Summary

Insulet's year-over-year improvement in revenues came on solid global uptake of the Omnipod system. The upbeat outlook for 2020 for the Omnipod business along with continued investments in the company's pipeline (including clinical trial and subsequent launch of Omnipod Horizon) buoys optimism. The expansion of Omnipod DASH across Europe and Canada is also on the cards, which further uplifts market sentiment. Insulet put up a robust performance in the fourth quarter with better-than-expected revenues. Insulet has been outperforming its industry over the past six months. However, the contraction of both gross and operating margins along with a sharp year-over-year decline in earnings in the fourth quarter is concerning. Also, a weaker global economy and lower reimbursement rates are likely to affect the company.

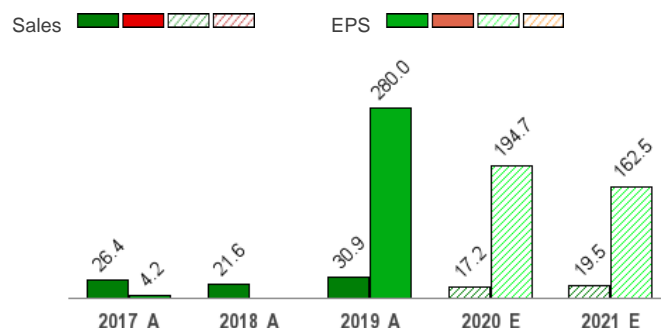
Price, Consensus & Surprise



Data Overview

| | |
|----------------------------|---|
| 52 Week High-Low | \$219.85 - \$80.43 |
| 20 Day Average Volume (sh) | 868,954 |
| Market Cap | \$11.0 B |
| YTD Price Change | 2.7% |
| Beta | 0.76 |
| Dividend / Div Yld | \$0.00 / 0.0% |
| Industry | Medical - Products |
| Zacks Industry Rank | Top 15% (39 out of 254) |

Sales and EPS Growth Rates (Y/Y %)



| | |
|---------------------------|-------------------|
| Last EPS Surprise | -11.1% |
| Last Sales Surprise | 5.9% |
| EPS F1 Est- 4 week change | -15.0% |
| Expected Report Date | 05/07/2020 |
| Earnings ESP | 100.0% |

Sales Estimates (millions of \$)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|-------|-------|-------|-------|---------|
| 2021 | 225 E | 248 E | 267 E | 290 E | 1,034 E |
| 2020 | 190 E | 207 E | 221 E | 239 E | 865 E |
| 2019 | 160 A | 177 A | 192 A | 209 A | 738 A |

EPS Estimates

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|-----------|----------|----------|----------|----------|
| 2021 | \$0.14 E | \$0.21 E | \$0.40 E | \$0.50 E | \$1.47 E |
| 2020 | -\$0.01 E | \$0.05 E | \$0.22 E | \$0.27 E | \$0.56 E |
| 2019 | \$0.07 A | \$0.02 A | \$0.09 A | \$0.08 A | \$0.19 A |

*Quarterly figures may not add up to annual.

| | |
|---------|--------------|
| P/E TTM | 676.0 |
| P/E F1 | 313.8 |
| PEG F1 | NA |
| P/S TTM | 15.0 |

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/27/2020. The reports text is as of 03/30/2020.

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 2019, the company's 56.9% of total revenues came from the U.S. Omnipod sales, while 34.3% was generated from the International Omnipod sales.

Drug Delivery Business (8.8% of total revenues in 2019): 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 six months. The stock has gained 7.9% against the industry's 17.8% fall. Insulet exited the fourth quarter with better-than-expected revenues. The year-over-year improvement in revenues on solid uptake of the Omnipod system, both in the United States and across international markets looks encouraging. The upbeat outlook for 2020 for the Omnipod business along with continued investments in the company's pipeline (which includes the clinical trial and subsequent launch of Omnipod Horizon) buoys optimism. It is planning on the expansion of Omnipod DASH across Europe and Canada, which further uplifts market sentiment. The company also remains focused toward advancing with its strategic initiatives forward.

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.

Insulet's imperatives also progressed well in 2019. The company remains focused toward advancing with its initiatives forward. Notably, its initiatives include delivering consumer-focused innovation, ensuring the best global customer experience, expanding its global footprint and drive operational excellence.

▲ **Build Out of U.S. Manufacturing Facility:** Management seems to be particularly upbeat about the manufacturing unit in Acton, Massachusetts. Insulet started production in its new highly automated manufacturing facility in Acton in the first half of 2019. Notably, the facility serves as the company's new global headquarters. Insulet expects that, following start up related activities, the new facility will allow it to lower manufacturing costs, increase supply redundancy, add capacity closer to its North American customer base and support growth. Management expects to continue expanding investment in the facility in 2020 to support growth of its business.

▲ **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. Subsequently, the company launched the Omnipod DASH system in select Europe markets in December 2019. Per Insulet, the DASH system enables it to better serve the Type 2 diabetes market, thus expanding the patient outreach. The company is also making its presence felt in the Middle East. Insulet is on track to roll out the DASH system across Europe and Canada in 2020.

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 (AID) 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.

The company is progressing well with its Omnipod Horizon clinical trial and is planning a subsequent launch in the United States. Insulet broadened its collaboration with DexCom to integrate DexCom's G6 and future G7 continuous glucose monitoring systems into the Omnipod Horizon system. Insulet is also on track with the expansion of partnership with Abbott to integrate Abbott's next-generation Libre glucose sensing technology into the next-generation Omnipod Horizon system. Given the potential of the diabetes market, Insulet is concentrating on shifting resources toward maximizing its AID development efforts with its sensor partners.

▲ **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.

Reasons To Sell:

▼ **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.

Insulet's heavy reliance on the Omnipod System and a tough competitive landscape adds to the woes.

▼ **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.

Last Earnings Report

Insulet Q4 Earnings Lag Estimates, Revenues Beat

Insulet announced fourth-quarter fiscal 2019 GAAP earnings per share of 8 cents, down 50% year over year. The metric also missed the Zacks Consensus Estimate by a penny.

Full-year GAAP earnings per share were 19 cents, reflecting a 280% surge from 5 cents reported a year ago. However, the company beat the Zacks Consensus Estimate by a penny.

Revenues in Detail

Revenues in the fourth quarter totaled \$209.4 million, beating the Zacks Consensus Estimate by 5.9%. Moreover, the top line grew 26.9% from the year-ago number.

Full-year revenues were \$738.2 million, reflecting a 30.9% increase from the year-ago period. Revenues beat the Zacks Consensus Estimate by 1.6%.

Segment in Detail

Insulet delivered fourth-quarter U.S. **Omnipod** revenues of \$126.7 million, reflecting an increase of 36% year over year.

International Omnipod revenues of \$65.8 million were up 20%.

The **Drug Delivery** business' revenues totaled \$16.9 million, up 1% year over year.

Margins

Gross profit in the reported quarter was \$134.1 million, up 21.6% from the prior-year quarter. However, gross margin of 64% contracted 285 basis points (bps).

However, operating profit rose 12.3% to \$18 million. Total operating expenses of \$116 million escalated 23.2% from the year-ago figure, leading to a 113-bps contraction in the operating margin to 8.7%.

2020 Guidance

For the year, the company expects revenues of 14-18%, including an adverse foreign currency impact of 1%. The Zacks Consensus Estimate for the metric is pegged at \$865.2 million.

Total Omnipod revenues are expected to be 17-21%, including an adverse foreign currency impact of 1%. U.S. Omnipod revenues are likely to be 18-22%, whereas International Omnipod revenue growth is projected to be 16-20% (including an adverse foreign currency impact of 1%). However, revenues in the Drug Delivery segment are expected to decline 15-20%.

For the first quarter of 2020, Insulet projects revenues of 17-20%, including an adverse foreign currency impact of 1%. The Zacks Consensus Estimate for the metric is pegged at \$193.9 million.

Total Omnipod revenues are expected to be 23-26%, including an adverse foreign currency impact of 1%. U.S. Omnipod revenues are likely to be 27-29%, whereas International Omnipod revenue growth is projected to be 17-20% (including an adverse foreign currency impact of 3%). However, revenues in the Drug Delivery segment are expected to decline 28-34%.

Quarter Ending **12/2019**

| Report Date | Feb 25, 2020 |
|------------------|--------------|
| Sales Surprise | 5.87% |
| EPS Surprise | -11.11% |
| Quarterly EPS | 0.08 |
| Annual EPS (TTM) | 0.26 |

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.

Valuation

Insulet shares are up 2.7% in the year to date period and up 84.2% in the trailing 12-month periods. Stocks in the Zacks sub-industry are down 19.8% while the Zacks Medical sector are down 16.6% in the year to date period. Over the past year, the Zacks sub-industry is down 17.3% and sector is down 16.1%.

The S&P 500 index is down 21.1% in the year to date period and down 11.8% in the past year.

The stock is currently trading at 12.3X Forward 12-months sales, which compares to 3.2X for the Zacks sub-industry, 2.3X for the Zacks sector and 2.8X for the S&P 500 index.

Over the past five years, the stock has traded as high as 15X and as low as 3.7X, with a 5-year median 6.5X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$185 price target reflects 12.9X 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 | 12.26 | 3.17 | 2.33 | 2.76 |
| | 5-Year High | 15.03 | 3.98 | 3.84 | 3.43 |
| | 5-Year Low | 3.72 | 2.88 | 2.33 | 2.54 |
| | 5-Year Median | 6.52 | 3.21 | 2.97 | 3.00 |
| P/B TTM | Current | 143.15 | 2.60 | 3.21 | 3.42 |
| | 5-Year High | 176.29 | 4.30 | 5.05 | 4.55 |
| | 5-Year Low | 18.42 | 2.18 | 2.84 | 2.85 |
| | 5-Year Median | 35.32 | 2.77 | 4.30 | 3.63 |

As of 03/27/2020

Industry Analysis Zacks Industry Rank: Top 15% (39 out of 254)



Top Peers

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

| Industry Comparison Industry: Medical - Products | | | | Industry Peers | | |
|--|--------------|------------|-----------|----------------|-------------|--------------|
| | PODD Neutral | X Industry | S&P 500 | ABT Neutral | MDT Neutral | TNDM Neutral |
| VGM Score | D | - | - | B | B | D |
| Market Cap | 11.05 B | 291.84 M | 17.63 B | 131.48 B | 120.47 B | 4.09 B |
| # of Analysts | 12 | 2 | 13 | 10 | 14 | 8 |
| Dividend Yield | 0.00% | 0.00% | 2.41% | 1.93% | 2.40% | 0.00% |
| Value Score | F | - | - | C | C | F |
| Cash/Price | 0.04 | 0.11 | 0.07 | 0.03 | 0.11 | 0.06 |
| EV/EBITDA | 150.13 | 0.53 | 10.81 | 18.55 | 14.36 | -206.29 |
| PEG Ratio | NA | 2.33 | 1.69 | 1.96 | 2.25 | NA |
| Price/Book (P/B) | 143.15 | 2.94 | 2.35 | 4.21 | 2.32 | 20.73 |
| Price/Cash Flow (P/CF) | 275.06 | 15.21 | 9.47 | 14.94 | 12.37 | NA |
| P/E (F1) | 311.00 | 22.90 | 14.74 | 20.72 | 15.95 | NA |
| Price/Sales (P/S) | 14.97 | 4.37 | 1.89 | 4.12 | 3.88 | 11.28 |
| Earnings Yield | 0.32% | 0.00% | 6.73% | 4.83% | 6.27% | -0.04% |
| Debt/Equity | 11.70 | 0.12 | 0.70 | 0.53 | 0.48 | 0.07 |
| Cash Flow (\$/share) | 0.64 | -0.00 | 7.01 | 4.99 | 7.27 | -0.13 |
| Growth Score | B | - | - | B | C | B |
| Hist. EPS Growth (3-5 yrs) | NA% | 11.68% | 10.85% | 8.90% | 6.24% | NA |
| Proj. EPS Growth (F1/F0) | 192.11% | 9.71% | 2.89% | 11.05% | 7.95% | 92.56% |
| Curr. Cash Flow Growth | 109.08% | 3.15% | 5.93% | 4.54% | 6.26% | -93.28% |
| Hist. Cash Flow Growth (3-5 yrs) | 24.62% | 7.71% | 8.55% | 11.80% | 15.58% | 13.65% |
| Current Ratio | 3.75 | 2.59 | 1.23 | 1.44 | 2.75 | 2.78 |
| Debt/Capital | 92.13% | 15.15% | 42.57% | 34.74% | 32.25% | 6.73% |
| Net Margin | 1.58% | -15.25% | 11.64% | 11.56% | 17.11% | -6.83% |
| Return on Equity | 9.56% | -8.22% | 16.74% | 18.39% | 14.76% | -8.99% |
| Sales/Assets | 0.68 | 0.61 | 0.54 | 0.47 | 0.34 | 1.33 |
| Proj. Sales Growth (F1/F0) | 16.33% | 5.14% | 2.37% | 6.89% | 2.57% | 26.51% |
| Momentum Score | F | - | - | B | B | F |
| Daily Price Chg | -1.14% | -0.95% | -3.35% | -1.65% | -2.23% | 4.99% |
| 1 Week Price Chg | -13.61% | -6.21% | -16.96% | -16.72% | -12.79% | -12.74% |
| 4 Week Price Chg | -4.35% | -16.09% | -18.79% | -5.85% | -10.98% | -8.85% |
| 12 Week Price Chg | 3.52% | -20.19% | -25.68% | -14.25% | -21.53% | 13.62% |
| 52 Week Price Chg | 86.89% | -23.91% | -17.12% | -6.14% | -0.08% | 7.29% |
| 20 Day Average Volume | 868,954 | 271,268 | 4,286,768 | 12,417,734 | 10,331,066 | 1,563,922 |
| (F1) EPS Est 1 week change | 0.00% | 0.00% | -0.15% | 0.00% | 0.00% | -327.27% |
| (F1) EPS Est 4 week change | -14.99% | 0.00% | -2.28% | 0.00% | 0.00% | -316.67% |
| (F1) EPS Est 12 week change | -18.84% | -2.55% | -3.22% | -0.36% | 0.63% | -228.68% |
| (Q1) EPS Est Mthly Chg | -127.71% | 0.00% | -1.60% | 0.00% | 0.00% | -2.85% |

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 | B |
| 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.

Disclosures

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