

Insulet

Good guide despite some pull forward confusion

Reiterate Rating: BUY | PO: 255.00 USD | Price: 197.14 USD

Objectively Q4 fine and guide good (but needs explaining)

PODD's Q4 had \$20-25m in revenue that shifted into Q423 from Q124. Given PODD had already given 2024 US growth of mid 20% this shift in revenue caused the 2024 growth guide to move lower to 16-21%. We go through the math below but once everything is adjusted the 2024 US revenue number is essentially the same (the high end of the current guide is equal to the low end of the guide 3 mo ago). This caused a bit of confusion but, stepping aside, Q4 revenue was in line as most expected (reported \$395 adjusted for \$20-\$25m shift to Q4 and \$10-\$15m increase in inventory levels = adj revenue of ~\$360m vs Street of \$359m). And the 2024 underlying margin guide of 200bps y/y (vs investor expectations of 100bps) was strong. Q4 new starts were down slightly vs Q3 (MDT is holding onto their patients more so competitive win pool smaller). But our view is now that PODD is focused on margin upside the stock can likely move higher. We update our model for Q4 and reiterate our Buy rating.

US guide explained in detail

In November PODD's guidance for 2023 US Omnipod growth was 37-38% off of 2022 US Omnipod revenue of \$885m which implied 2023 revenue of \$1,212m-\$1,221m. In November when PODD also gave initial 2024 color of mid-20% US Omnipod growth this represented 2024 US Omnipod revenue growth of \$1,515m-\$1,526m (25% growth off \$1,212m-\$1,221m 2023 revenue base). Tonight PODD reported actual 2023 US Omnipod revenue of \$1,251m and provided a 2024 guide of 16-21% growth which represents \$1,451m-\$1,514m, which at the high end is in line with the color provided in November.

Change in installed base estimate in prior period

PODD previously estimated it had a global customer base of 360k as of the end of 2022, however now after getting a better sense for estimates for customers on Classic Omnipod in the US, PODD is revising its 2022 global customer base estimate to 345k. PODD notes since the Classic Omnipod was through DME visibility was very limited into how many customers were on the product. PODD has better visibility to DASH and Omnipod 5 customers as they are through the pharmacy channel and estimates a global customer base of 425k of which 250k are on Omnipod 5.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	1.31	2.68	2.95	3.63	4.43
EPS Change (YoY)	445.8%	104.6%	10.1%	23.1%	22.0%
Consensus EPS (Bloomberg)			2.48	3.35	4.59
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	150.5x	73.6x	66.8x	54.3x	44.5x
EV / EBITDA*	76.8x	51.2x	43.7x	37.2x	31.7x
Free Cash Flow Yield*	0%	0.9%	0.6%	0.7%	0.7%

* For full definitions of *IQmethod*SM measures, see page 4.

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Timestamp: 23 February 2024 05:00AM EST

23 February 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	1,976.7	1,961.1
2025E Rev (m)	2,343.6	2,298.4
2026E Rev (m)	2,712.7	2,679.1
2024E EPS	2.52	2.95
2025E EPS	3.55	3.63
2026E EPS	4.44	4.43

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Stock Data

Price	197.14 USD
Price Objective	255.00 USD
Date Established	2-Jan-2024
Investment Opinion	C-1-9
52-Week Range	125.82 USD - 335.91 USD
Mrkt Val (mn) / Shares Out (mn)	13,766 USD / 69.8
Free Float	99.5%
Average Daily Value (mn)	151.58 USD
BofA Ticker / Exchange	PODD / NAS
Bloomberg / Reuters	PODD US / PODD.OQ
ROE (2024E)	24.9%
Net Dbt to Eqty (Dec-2023A)	93.1%
ESGMeter TM	High

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iQprofileSM Insulet

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	5.9%	9.2%	9.4%	10.2%	11.0%
Return on Equity	17.6%	32.3%	24.9%	22.9%	21.5%
Operating Margin	9.5%	12.3%	13.0%	13.6%	14.2%
Free Cash Flow	(4)	120	89	103	90

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.3x	1.0x	1.2x	1.2x	1.0x
Asset Replacement Ratio	1.9x	1.0x	2.4x	2.8x	3.2x
Tax Rate	5.4%	4.1%	15.0%	15.0%	15.0%
Net Debt-to-Equity Ratio	152.6%	93.1%	59.0%	36.8%	23.2%
Interest Cover	4.5x	28.9x	50.9x	NM	NM

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	1,305	1,697	1,961	2,298	2,679
% Change	18.8%	30.0%	15.6%	17.2%	16.6%
Gross Profit	864	1,148	1,341	1,583	1,858
% Change	14.8%	33.0%	16.8%	18.1%	17.4%
EBITDA	187	281	329	387	454
% Change	2.1%	50.1%	17.2%	17.4%	17.5%
Net Interest & Other Income	(28)	(7)	(5)	(5)	(5)
Net Income (Adjusted)	91	193	212	261	318
% Change	442.3%	111.7%	10.0%	22.9%	22.1%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	91	193	212	261	318
Depreciation & Amortization	63	73	75	75	75
Change in Working Capital	(3)	(139)	(74)	(78)	(115)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(33)	63	52	52	52
Capital Expenditure	(123)	(70)	(176)	(207)	(241)
Free Cash Flow	-4	120	89	103	90
% Change	97.8%	NM	-26.4%	16.0%	-12.9%
Share / Issue Repurchase	0	0	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(40)	(20)	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	675	752	841	944	1,034
Trade Receivables	206	284	312	339	391
Other Current Assets	434	499	549	606	674
Property, Plant & Equipment	600	654	756	888	1,054
Other Non-Current Assets	337	347	347	347	347
Total Assets	2,251	2,536	2,805	3,123	3,500
Short-Term Debt	28	50	50	50	50
Other Current Liabilities	337	359	363	368	374
Long-Term Debt	1,374	1,371	1,371	1,371	1,371
Other Non-Current Liabilities	36	38	38	38	38
Total Liabilities	1,775	1,817	1,822	1,827	1,833
Total Equity	476	719	983	1,297	1,667
Total Equity & Liabilities	2,251	2,536	2,805	3,123	3,500

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Medical Technology

Company Description

Insulet develops, manufactures, and markets an insulin infusion system for people with insulin-dependent diabetes. The Omnipod Insulin Management System is disposable and waterproof. It has a small form factor that adheres directly to the patient's skin, making it more discrete than most insulin infusion systems that typically clip to a belt or fit in a pocket.

Investment Rationale

We rate PODD Buy given PODD's high growth recurring revenue business model and competitive positioning with a recent new product approval.

Stock Data

Average Daily Volume

768,875

Quarterly Earnings Estimates

	2023	2024
Q1	0.23A	0.55E
Q2	0.38A	0.61E
Q3	0.68A	0.74E
Q4	1.37A	1.05E

Price objective basis & risk

Insulet (PODD)

Our \$255 PO is based on 45x our 2025 EBITDA. We use the same multiple we use for DXCM, given PODD is growing EBITDA faster than mature large caps so deserves a premium for its faster profit growth. We maintain our Buy rating as PODD is the clear market leader in the fastest-growing segment of the pump market with a wide moat.

Upside risks are a faster penetration in Type 2 or a greater than expected share gain with Omnipod 5, pharmacy channel, and pay-as-you-go. Downside risks are slowdown in the overall pump market or patients converting from multiple daily injections, pricing pressure, new competitors with patch pumps, or additional competition particularly from AID systems in OUS markets.

Analyst Certification

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US - Medical Technology & Devices Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Abbott Laboratories	ABT	ABT US	Travis Steed
	Axonics	AXNX	AXNX US	Travis Steed
	Bausch & Lomb	BLCO	BLCO US	Craig Bijou
	Becton Dickinson	BDX	BDX US	Travis Steed
	Boston Scientific	BSX	BSX US	Travis Steed
	Dexcom	DXCM	DXCM US	Travis Steed
	Inari Medical	NARI	NARI US	Travis Steed
	Inspire Medical	INSP	INSP US	Travis Steed
	Insulet	PODD	PODD US	Travis Steed
	Intuitive Surgical	ISRG	ISRG US	Travis Steed
	Medtronic	MDT	MDT US	Travis Steed
	Paragon 28	FNA	FNA US	Craig Bijou
	Procept BioRobotics Corporation	PRCT	PRCT US	Craig Bijou
	RxSight	RXST	RXST US	Craig Bijou
	Shockwave Medical	SWAV	SWAV US	Travis Steed
	Si-Bone	SIBN	SIBN US	Craig Bijou
	Stryker	SYK	SYK US	Travis Steed
	The Cooper Companies	COO	COO US	Craig Bijou
NEUTRAL				
	Baxter International Inc	BAX	BAX US	Travis Steed
	Conmed	CNMD	CNMD US	Travis Steed
	Edwards Lifesciences	EW	EW US	Travis Steed
	GE HealthCare	GEHC	GEHC US	Craig Bijou
	Integer Holdings Corporation	ITGR	ITGR US	Craig Bijou
	Merit Medical	MMSI	MMSI US	Craig Bijou
	Teleflex Incorporated	TFX	TFX US	Craig Bijou
	Zimmer Biomet	ZBH	ZBH US	Travis Steed
UNDERPERFORM				
	Embecta	EMBC	EMBC US	Travis Steed
	Globus Medical	GMED	GMED US	Craig Bijou
	Integra Lifesciences	IART	IART US	Craig Bijou
	Nevro	NVRO	NVRO US	Travis Steed
	Outset Medical	OM	OM US	Travis Steed



US - Medical Technology & Devices Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Silk Road Medical	SILK	SILK US	Travis Steed
	Tandem Diabetes Care	TNDM	TNDM US	Travis Steed

iQmethodSM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill Amortization}$
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	$\text{Cash Flow From Operations} - \text{Total Capex}$	N/A
Quality of Earnings	Numerator	Denominator
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	$\text{Net Debt} = \text{Total Debt} - \text{Cash \& Equivalents}$	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit	Numerator	Denominator
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	$\text{Cash Flow From Operations} - \text{Total Capex}$	$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$	Sales
EV / EBITDA	Enterprise Value	$\text{Basic EBIT} + \text{Depreciation} + \text{Amortization}$

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Insulet (PODD) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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