

Tandem Diabetes Care

Q423 takeaways

Reiterate Rating: UNDERPERFORM | PO: 18.00 USD | Price: 22.55 USD

Margin guide a steep ramp in 2024

TNDM's Q4 non-GAAP revenue of \$209m beat Street estimates of \$202m by 4% but Q4 EBITDA margin of 2% came in light vs Street's 7% (pressured 4pts from the rebate pricing adjustment in France). The 2024 revenue guide was in line with prior commentary of 10% growth but the Q1 EBITDA margin guide of -15% requires a steep ramp to the full year guide of EBITDA breakeven. Renewals could get TNDM to the revenue guide, but this doesn't add to the installed base (new starts more value add) and the 2024 margin guide does not seem conservative.

More color on guidance and the ramp

The 10% growth in 2024 is what TNDM believes it can achieve with growing supply sales as the installed base grows, the step up in the renewal opportunity (growing 30%+ y/y) and new pumpers flat to slightly down. The guidance does not include any inflection in the business from new products. In Q1 TNDM typically sees US pump shipments decline 30% q/q but this decline may be more pronounced this year as customers wait for mobi (launched on 2/13 so only available half the qtr) and mobi integration with G7 (expected in late Q2). The Q1 EBITDA guide of -15% reflects 1) seasonal step down in sales, mostly in pump revenue which is the higher margin business mix, 2) initial mobi volumes will be more costly, and 3) typical step up in opex in a new year. The ramp reflects typical GM and EBITDA scale through the year along with pump sales as well as leverage on mobi at higher volumes in 2H (EBITDA expected to return to profitability in 2H).

Summary of new offering timelines

In the US, mobi with G6 launched last week and mobi integration with G7 is expected later in Q2 and integration with Libre 3 will follow. In January, Tandem launched t:slim X2 integration with Libre 2. The OUS rollout of t:slim X2 integration with G7 began in January. This year OUS TNDM plans to introduce Tandem Source data management application, the mobile app for t:slim X2, and t:slim X2 integration with Libre 3. TNDM is also taking steps to offer mobi OUS. TNDM also anticipates signing contracts in 2024 to begin selling Mobi in the pharmacy channel in the US (though not reflected in guide).

We revise estimates to reflect Q4 earnings. We reiterate our Underperform rating as TNDM needs to more than double its installed base to get to sustainable margins at a time when TNDM's not in the growth segment of the pump market and as TNDM's segment is getting more competitive.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	(0.74)	(1.57)	(1.64)	(0.79)	0.23
EPS Change (YoY)	NM	-112.2%	-4.5%	51.8%	NM
Consensus EPS (Bloomberg)			(1.20)	(0.83)	(0.40)
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	NM	NM	NM	NM	98.0x
EV / EBITDA*	36.3x	NM	NM	36.0x	16.1x
Free Cash Flow Yield*	1.1%	-4.0%	-4.6%	1.8%	4.7%

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

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Timestamp: 22 February 2024 05:41AM EST

22 February 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	841.5	849.9
2025E Rev (m)	919.0	936.6
2026E Rev (m)	999.1	1,018.9
2024E EPS	-1.76	-1.64
2025E EPS	-0.87	-0.79
2026E EPS	0.21	0.23

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Stock Data

Price	22.55 USD
Price Objective	18.00 USD
Date Established	18-Oct-2023
Investment Opinion	C-3-9
52-Week Range	13.82 USD - 44.85 USD
Mrkt Val (mn) / Shares Out (mn)	1,480 USD / 65.6
Free Float	99.3%
Average Daily Value (mn)	31.59 USD
BofA Ticker / Exchange	TNDM / NAS
Bloomberg / Reuters	TNDM US / TNDM.OQ
ROE (2024E)	-34.2%
Net Dbt to Eqty (Dec-2023A)	113.8%
ESGMeter TM	Medium

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iQprofileSM Tandem Diabetes Care

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	-4.9%	-10.7%	-12.2%	-5.7%	1.5%
Return on Equity	-10.9%	-27.1%	-34.2%	-15.1%	3.4%
Operating Margin	-5.7%	-14.6%	-14.2%	-7.1%	0%
Free Cash Flow	16	(59)	(68)	26	70

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	NM	NM	NM	NM	8.4x
Asset Replacement Ratio	2.4x	1.7x	2.3x	2.6x	2.8x
Tax Rate	NM	NM	NM	NM	2.4%
Net Debt-to-Equity Ratio	56.2%	113.8%	130.9%	100.8%	59.4%
Interest Cover	NM	NA	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	805	773	850	937	1,019
% Change	14.5%	-4.0%	10.0%	10.2%	8.8%
Gross Profit	417	393	434	515	601
% Change	10.7%	-5.7%	10.4%	18.8%	16.7%
EBITDA	53	(9)	0	54	120
% Change	-45.1%	NM	96.4%	NM	123.4%
Net Interest & Other Income	0	13	15	15	15
Net Income (Adjusted)	(48)	(102)	(108)	(52)	15
% Change	NM	-114.3%	-5.7%	51.5%	NM

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(48)	(102)	(108)	(52)	15
Depreciation & Amortization	14	16	20	20	20
Change in Working Capital	(5)	(18)	(33)	10	(9)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	88	72	100	100	100
Capital Expenditure	(34)	(27)	(47)	(52)	(56)
Free Cash Flow	16	-59	-68	26	70
% Change	-83.2%	NM	-15.6%	NM	165.8%
Share / Issue Repurchase	17	4	10	10	10
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	173	59	2	38	119
Trade Receivables	115	106	127	123	133
Other Current Assets	563	584	604	593	591
Property, Plant & Equipment	69	77	103	135	171
Other Non-Current Assets	134	128	128	128	128
Total Assets	1,053	953	963	1,017	1,142
Short-Term Debt	13	17	17	17	17
Other Current Liabilities	152	178	186	182	181
Long-Term Debt	407	399	399	399	399
Other Non-Current Liabilities	41	45	45	45	45
Total Liabilities	613	639	647	643	642
Total Equity	440	314	316	374	500
Total Equity & Liabilities	1,053	953	963	1,017	1,142

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

Company Sector

Medical Technology

Company Description

TNDM is a high growth pure play medical device company focused exclusively on the development and commercialization of insulin pump technology for the treatment of diabetes.

Investment Rationale

TNDM has a lower percentage of recurring revenue and lower margin structure relative to peers. We rate the shares Underperform as competitive pressures continue to weigh on market share.

Stock Data

Average Daily Volume 1,400,839

Quarterly Earnings Estimates

	2023	2024
Q1	-0.63A	-0.82E
Q2	-0.30A	-0.55E
Q3	-0.38A	-0.30E
Q4	-0.27A	0.02E

Price objective basis & risk

Tandem Diabetes Care (TNDM)

Our \$18 PO is based on a 1x EV/2025E Sales multiple. We use 1x sales, the low end of the 1-5x EV/Sales range smid cap medtech has historically traded at given sustainable profitability is far out along with more competitive pressure.

Upside risks to our PO are driven by increased market share gains, an acceleration in the overall pump market, or less competitive pressure than expected. Downside risks to our PO are increased competition in the pump market, Type 1 pump penetration peaking earlier than expected, the Type 2 opportunity not opening for TNDM, and potential pipeline delays.

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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



US - Medical Technology & Devices Coverage Cluster

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

iQ^{method} SM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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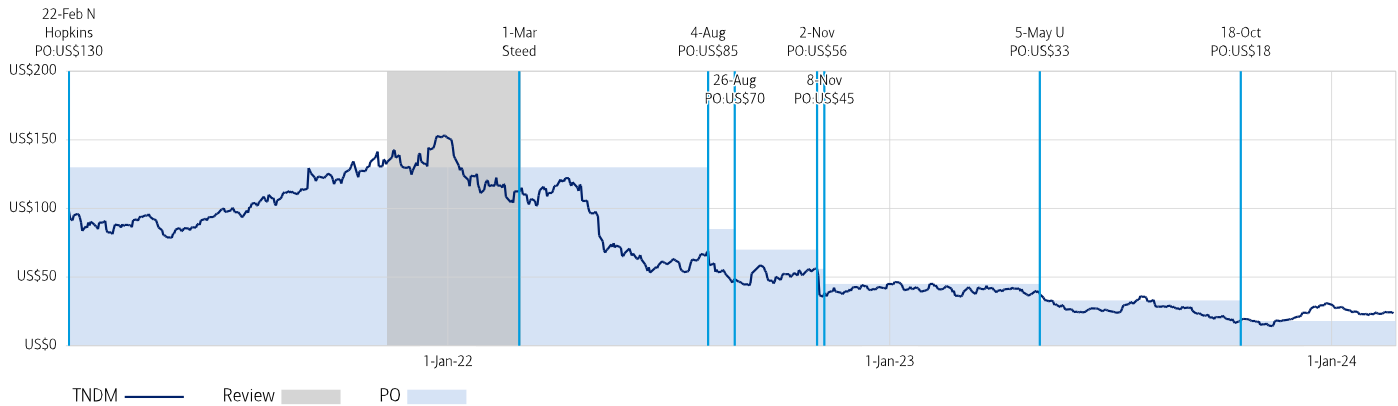
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Tandem Diabetes Care (TNDM) Price Chart



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%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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