

Insulet signs deal to ramp up insulin pump supply

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BOSTON (Reuters)

Insulet Corp., which makes an insulin pump for diabetics, has signed an agreement with contract engineering company Flextronics International Ltd. that will expand its manufacturing capacity and remove a key obstacle to growth.

Insulet's shares have risen 51 percent since its initial public offering in May, amid high hopes for a device that is more convenient than traditional pumps such as those made by Medtronic Inc., the market leader.

Until now, however, the Bedford, Massachusetts-based company has not been able to produce enough of its OmniPod devices to meet demand, let alone make a profit. Its agreement with Flextronics, one of the biggest makers of blood glucose meters in the world, is designed to change that.

Duane DeSisto, the company's chief executive officer, expects to be producing enough of the disposable, tubeless devices to turn a profit by 2009, he said in an interview. If it succeeds, analysts believe the company could make an attractive acquisition candidate.

"There are not a lot of small cap companies in the diabetes space and if you are successful, you tend to get acquired by one of the larger guys," said William Plovanic, an analyst at Canaccord Adams, which has no investment banking relationship with Insulet.

The principal appeal of the OmniPod system is its convenience.

Unlike traditional pumps, which are attached to the body with awkward, unsightly tubes that can stretch to 3.5 feet, the OmniPod is a self-contained unit that sticks to the skin without the need for tubing. It is replaced every three days and controlled by a handheld device that looks like a standard personal organizer.

Insulin pumps are mainly used by patients with Type 1 diabetes, which, unlike the more common Type 2 form of the disease, means patients must receive daily therapy with a pump or injections to survive. Type 2 diabetics are often not entirely insulin deficient and can be treated with drugs.

Many physicians consider insulin pumps the optimal way of managing Type 1 diabetes, but because the devices are so cumbersome, all but 25 percent of the 1.2 million patients with the disease in the United States prefer to give themselves multiple daily injections.

Nonetheless, the \$1.4 billion market for insulin pumps is growing at an estimated 16 percent a year and Insulet's device could expand the market further.

Analysts at JP Morgan, which helped manage the company's initial public offering, expect Insulet to generate sales of \$11 million this year, growing to \$39.5 million in 2008 and

\$102 million in 2009.

Based on those and similar estimates from other analysts, Insulet's stock is not particularly cheap. The company already has a market capitalization of roughly \$600 million.

Medtronic, Roche Holding AG, Abbott Laboratories Inc. and Johnson & Johnson have all acquired diabetes device companies for multiples of between 5 and 9 times trailing 12-month revenue - or an average of 6.2.

By comparison, Insulet is valued at roughly 15 times estimated 2008 revenue and 6 times estimated 2009 revenue.

"While this is a great technology and we like it a lot, it's a pretty expensive stock and we think it is now fairly valued," Canaccord Adams' Plovanic said.

But Insulet may have other cards up its sleeve that could add to its appeal.

DeSisto said the company is in discussions with six big drugmakers to explore the potential of the OmniPod to deliver other medications, including fertility drugs and treatments for pain and late-stage Parkinson's disease, setting the stage for a variety of partnership deals.

"We've never dialed any of these prospects into our business model," DeSisto said, "but the thing that is intriguing is that I think we may have a drug delivery business buried in a diabetes management company."