



MEMORANDUM

Insulet expands international partnership with Ypsomed - April 11, 2012

Executive Highlights

- Insulet amended its global distribution agreement with Ypsomed, doubling the number of countries included and extending the partnership until at least 2016.

Earlier today, Insulet announced that it has expanded its global distribution partnership with Ypsomed. The amended agreement now makes Ypsomed the exclusive distributor of the OmniPod in a total of 22 countries (double the original eleven countries), including markets in Europe, the Middle East, and Asia. The new terms also extend the original agreement by one year to June 2016, with an option for a two- year extension if Ypsomed meets annual purchase targets in 2013 and 2014. The amended agreement updates certain other provisions as well, such as minimum purchase requirements, warranty provisions, and pricing terms (no specifics provided).

Notably, the announcement also said that Ypsomed was recently sent the initial shipment of the second-generation OmniPod for sale in Europe - this is on track with management's statements in Insulet's 4Q11 earnings call (see our report at <http://www.closeconcerns.com/knowledgebase/r/54810898>), but strikes us as notable news since there has been some uncertainty surrounding the shipment of the 2nd generation pod since the company has been at work on the manufacturing line in China. The fact that Insulet is shipping suggests a high confidence with the new line, very positive news from our view.

As a reminder, the original deal with Ypsomed was signed in January 2010 - through the partnership, the OmniPod is currently available in Germany, the United Kingdom, the Netherlands, and Switzerland. Insulet's 2011 Annual Report states, "Ypsomed's introduction of the OmniPod System in certain countries has been delayed due to a number of factors" - we assume much of this has had to do with reimbursement; management mentioned France as an example during the 4Q11 call. Insulet also signed an agreement with GlaxoSmithKline in March 2011, which made GSK the exclusive Canadian distributor of the OmniPod. The first-generation pod was subsequently launched in Canada in September 2011 (for more information, see our Insulet 3Q11 report at <https://closeconcerns.box.net/shared/482nryxjlf7gtl2bs465>). The structure of both deals is similar: Ypsomed and GSK buy OmniPods from Insulet and are then responsible for every aspect of sales in their territories, except for regulation and labeling.

We believe this agreement reflects well on Ypsomed's very highly regarded management team as well as distribution capabilities. The news also reflects well Insulet's next-generation product, since it signals that the company is moving forward and has had no major hitches to date. Given the low rates of pump penetration globally (well below 1% of type 1 patients in first-world countries), there's certainly significant upside to be realized as Insulet looks to broaden its reach around the world. We look forward to learning more specifics about the agreement and an update on the FDA status of the second-gen pod during Insulet's 1Q12 earnings call (date to be announced).

Close Concerns Questions

Q: How were the new countries chosen and which ones were chosen specifically? Q: Was there a specific impetus to extend the agreement?

Q: How does this agreement change the total number patients Insulet can now reach outside the US?

Q: Are specifics available on the amended price details, warranty terms, etc.?

Q: Is the ROI actually higher on pods sold through Ypsomed due to lower marketing and distribution expenses for Insulet, etc.?

--by Adam Brown and Kelly Close