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Siena Market Line
2nd week of April 2016

Insys Therapeutics, Inc.

NASDAQGM:INSY

Analyst: Pierre Gouesclou
Sector: Healthcare

Buy

Price Target: $23.34

Key Statistics as of 04/08/2016

Market Price:	$17.49
Industry:	Biotechnology
Market Cap:	$1.26B
52-Week Range:	$14.18-46.17.
Beta:	0.97

Thesis Points:

- Issuing their new product "Syndros" on the 15th of July 2016.
- Bearing no debt.
- Prospects of growth regarding 7 products in testing.
- The stock is "**Cheap**" given their results.

Company Description:

Insys Therapeutics, Inc. is a specialty pharmaceutical company specialized in the use of opioids in order to cure or reduce physical pains. The company was founded in 1990 by John Kapoor and entered the markets through an IPO in 2013 of 4 million shares with a price of $8 per share. Since its IPO in 2013 the company has more than doubled the value of their shares and enhanced most of their financial data. Currently, the company operates only in the United-States and provides only one approved product to their customers (Subsys). Insys Therapeutics presently has seven promising products in trial for stage 3 and 2 according to the product. This variety of products currently in test can prove to become an attractive source of value creation for the shareholders of INSY stock.

Thesis

Insys Therapeutics headquartered in Chandler, Arizona is a companies operating in the opioids segment, which is a very controversial and moving business overall. Most governments forbid the non-medical use of drugs such as morphine for example. In that aspect companies selling opioid derived products for purposes of pain reduction are very lucrative but not risk free due to legal restraints. Currently the company was able to increase their revenue by 2037% from 2012 to 2015 and generate a Net income of $58.5 million (2015) against $(24.4) million (2012) earlier. This increase of revenue which is mostly related to their only approved product (SUBSYS) can only make the investors wonder what would imply the release of their 7 products currently in testing. All these products have different purposes and aims different type of clients in order to broaden the market share of the company. In addition to this increase of revenue the company can only benefit from the legalization of drugs such as marijuana in several states. This legalization underlines the modification of the social vision on drug uses and could imply growth for companies like Insys Therapeutics.

Industry Outlook

During the last year the healthcare industry and especially the drug laboratories have suffered an importance loss of value. This loss of value is mostly due to the upcoming election and the Democrat candidate Hillary Clinton's speech regarding the limitation of drug prices. Furthermore many presidential candidates are expecting to influence this market if they are elected.

(Source: Bloomberg.)

Despite this political instability, the industry has been flourishing on both the innovations and revenues aspect. These opposing trends provide an opportunity to acquire undervalued or mispriced healthcare stocks with high future potentials that are not necessarily dependent on drug price.

Approved Product

Insys Therapeutics's business is based on one approved product called SUBSYS. This controversial product is derived from Fentanyl which is one of the most potent opioid on the market. This opioid can be very efficient for pain reduction but is highly addictive for users. SUBSYS is a spray that is injected under the tongue of the patient in order to enhance the efficiency of the spray. This spray has an effect of approximately 5 minutes and is used to reduce sudden sufferings of individuals. In addition, a package of 30 spray bottles of SUBSYS has an average selling price of $6,400 which implies an important margin for Insys Therapeutics. This product has been discussed at length in many newspaper articles or blogs regarding its potential danger for users; but no lawsuits has been filled against the firm.

Products in Development

Seven future products are currently being tested by the company before the commercialization. Most of these products are currently under phase 2 of the testing and cover a wide area of research ranging from cancer to opioid dependency.

COMPOUND	AREA OF RESEARCH	PHASE
Dronabinol Oral Solution	Nausea / Vomiting Associated with Cancer Chemotherapy and Anorexia / Weight Loss in Patients with AIDS	3
Cannabidiol	Severe Pediatric Epilepsies	2
Buprenorphine Sublingual Spray	Moderate to Severe Pain	2
Buprenorphine Naloxone Sublingual Spray	Opioid Dependence	2
Naloxone Sublingual Spray	Reversal of Opioid Depression	2
Ondansetron Sublingual Spray	Prevention of Nausea and Vomiting	2
Liposome Entrapped Paclitaxel (LEP)	Ovarian and Gastric Cancer	2

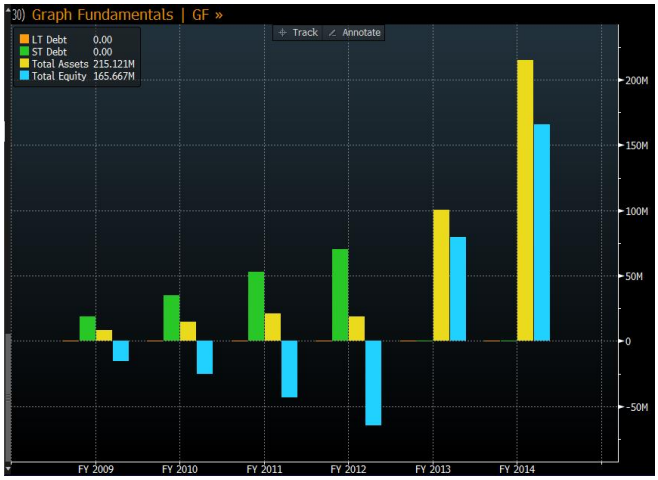
(Source: Corporate Website.)

Several of these products are presented under a similar application than SUBSYS to enhance the efficiency of the drug. Furthermore, Insys Therapeutics is currently attempting to appeal to other type of customers to gain additional market shares and enhance their growth possibilities. Dronabinol Oral Solution which is a liquid formulation of pharmaceutical cannabinoid will be used to avoid CINV (Chemotherapy-induced nausea and vomiting). This product is expect to generate

important revenues for the company. The most controversial drug Insys is currently developing remains Buprenorphine Naloxone Sublingual Spray which focuses on Opioid Dependence. This drug relieves drug craving without providing the "high effect" that could be expected from it.

Capital structure management

Insys Technology has had a very volatile Capital structure management between 2009 and 2014. This volatility was due to the commercialization of SUBSYS after 2012 when the company began generating revenue off its product. Up until 2012 the firm had a capital structure where their short term debts was higher than the total asset of the firm (leading to a negative Equity). This structure is often required for healthcare companies that are developing their product base. Once the product passed phase 3 and was beginning to sell the firm was able to pay off the integrity of their short-term debt, hence erasing any interest expenses. This capital structure has been financed by a combination of Retained earnings and additional paid in capital.

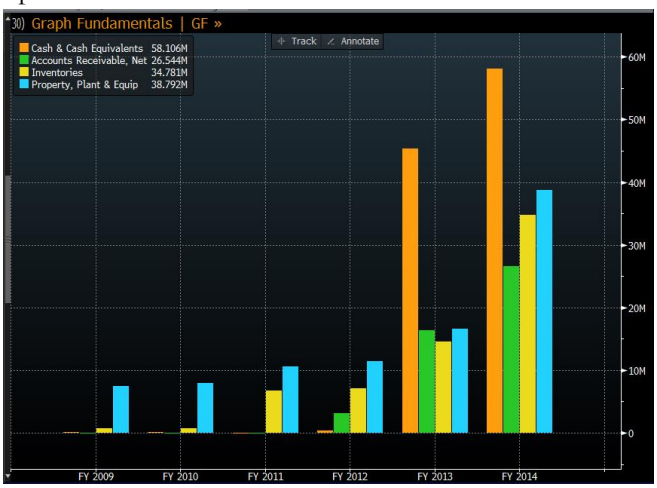


(Source: Bloomberg.)

Financials

Balance Sheet:

Between 2013 and 2015 the firm's total assets have tripled from $100 million to $351 million. The important increase in assets is due to 4 major factors: Cash & cash equivalents, Accounts receivables, Long-term investments and Property, plant & equipment. Due to their increase of revenue throughout the years Insys Therapeutics has accumulated important amounts of cash & cash equivalents since 2013. Although these cash reserves can be seen as useless it still remains a protection or a source of investment if required. From 2014 to 2015 the NPPE of the company increased by 28% due to the increase in their operations and research facilities.



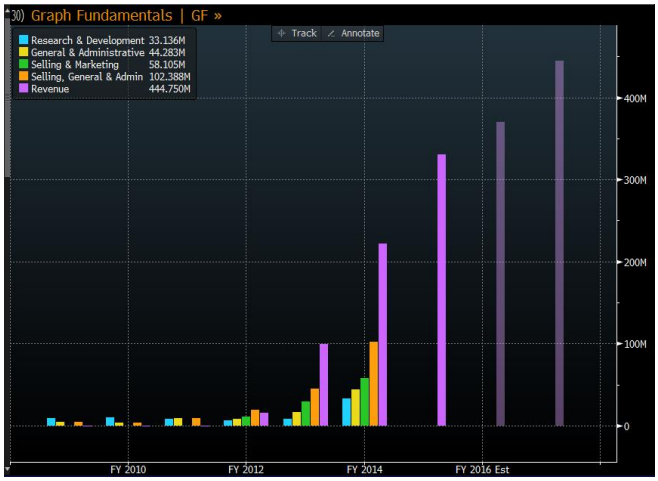
(Source: Bloomberg.)

In addition, Insys started Long and short term investments from 2014 through 2015. These investments are related to marketable securities purchased by the company and consists of three segments in 2015: Corporate securities (27.22%), Federal agency securities (18.85%), and Municipal securities (53.94%). At this point the firm has faced unrealized losses of 168,000 dollars during the year. Overall this increase of asset has been financed in majority by the Equity of the company mostly through issuance of stocks and increase of retained earnings. The company has acknowledged an increase in revenue which enhanced their ability to pay off obligations and purchase assets. Since the product has been issued in 2013 their retained earnings skyrocketed from $-129.4 million to $7.4 million in 2015 leading their Total Equity to increase considerably. On the other hand, the company started generating more important Additional Paid in capital (280% increase from 2012 to 2013). Although liabilities has decreased from 2012 to 2013 it has increased afterwards the structure of the liabilities has been strongly modified. In 3 years the firm deleted all of their Short and Long term debts and replaced them with Accounts payable and accrued expenses.

Income Statement:

Insys Therapeutics has been in a period of strong revenue growth of 2037% since 2012. As implied by the drug sector they operate in the company has very low Costs of Goods Sold (8.7% of their total revenue) as they are able to fix their prices. Insys has taken advantage of this source of revenue to invest in other operating that can prove beneficial in the long term. Since 2012 Insys Therapeutics increased their Selling

General & admin Expenses by 639% in order to be more efficient and positioned in their market. The company also increased the size of their Research & Development expenses by 777% which is translated by the amount of product currently under testing for FDA approval. The fact that the company has started to pay taxes in the United-States since 2014 (ranging from 40% (2014) to 37% (2015)) has been deflating the net income of the firm. This effect could be reduced by the commercialization of the firm's products in other countries with lower tax rates. To conclude on the Income statement we can observe an increase from -$24.4 (2014) million to $58.5 million (2015).



(Source: Bloomberg.)

Cash Flow:

Cash from Operations: The company has enhanced its cash perceived from operations in the past years. The two main drivers of this increase in the Net income and the Account Payables of the company. After erasing their short and long term debt the company started increasing their accounts payable, implying that the company has started to pay their dues with a delay of less than a year. On the other hand the company is starting to have an important Account receivable change in their cash flow. This will raise doubts regarding their Cash conversion cycle and the efficiency of their collection of credits from their customers. From 2014 to 2015 the company has doubled his cash generated from operations going from $49.7 million to $100.9 million (103%).

Cash from Investing: Since 2013 Insys Therapeutics has been using up their cash on Capital expenditures and Marketable & Equity securities. Between 2013 and today the company has increased their Capital expenditure expenses by 1513. As mentioned earlier the company started investing in Marketable securities ranging from corporate to governmental assets. The company is currently spending huge amounts of money in their investing segment of the cash flow implying a diversification and growth of the company.

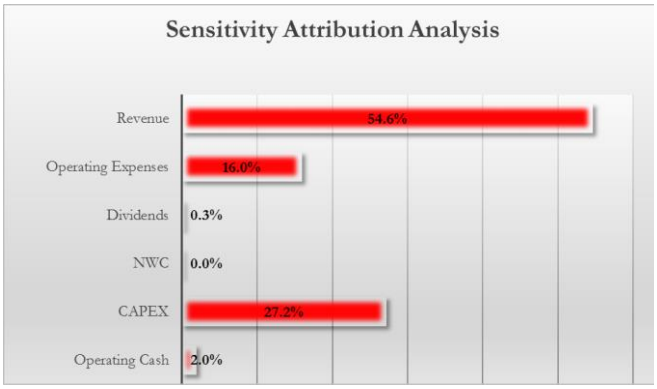
Cash from Financing: Since the approval of their product the company started to issue common stock in order to finance their activities. The company gradually expanded their issuance of Common Stock until reaching a cash flow of $12.2 million in 2015. On the other hand, in light of their repurchase program the company bought some of its common stock believing that the stock was undervalued. Given this repurchase of stock the cash flow from financing has been reduced by 72% compared to 2014.

R.O.I.C. & W.A.C.C.

Insys Therapeutics has an excellent management of their ROIC and WACC in the past years. In 2015 the company had a Return on Invest Capital of 70% for a Weight Average Cost of Capital of 27.4%. In light of this data the company had an R.O.I.C. /W.A.C.C. of 2.6, implying that the firm was able to create value in 2015. Furthermore according to my valuation the company has an expect R.O.I.C. of 44.8% and a W.A.C.C. of capital of 13.2% in the continuing period. On the continuing period this data would underline the fact that the company would create more value than in the present year with an ROIC/WACC of 3.66 against 2.6 in 2015.

Sensitivity Analysis

According to the sensitivity analysis, Insys Therapeutics's stock price is being driven by three main factors: Revenue (54.6%), Operating Expenses (16%) and CAPEX (27.2%). Given the sensitivity to revenue and the important increase of this variable in the last years and the prospects of growth we can expect the stock price to increase.



Stock repurchase program

In 2015 Insys Therapeutics launched a stock repurchase program of 50 million shares. In the last earning calls the Chief Financial Officer communicated that the company had purchased an amount of $27 million out of the $50 million and that the company would maintain purchasing them. The reason for this repurchasing program is that the company believes that the company stock price if undervalued and that they would be gaining by purchasing these shares and selling them in the future. I believe that most of this assumption of future growth is based on their soon to be issued "Syndros".

The Syndros paradox

On the 23rd of March 2016 the company issued information regarding negotiations with the FDA discussing the postponing of their new product Syndros. The new issuance date of the product has been fixed to the 15th of July 2016 and there are very low chances that the FDA will postpone it again. With no surprise this announcement provoked a decline of more than 14% of the share price given the importance of the product for the growth prospects of the firm. In the past year, the company had started to drain marketing costs from their Subsys product towards Syndros. This relocation of investments was expected given the importance of Syndros but was a big factor of the price decrease. This decrease of 14% can prove to be an interesting investment opportunity with the upcoming earning calls and the issuance of Syndros in July.

Marketing and sale scandals

On the 12th of December 2013 the company announced that the HHS issued a subpoena regarding their marketing and sell strategies. Prior to this Subpoena the company had been accused to pay doctors with unclean records in order to promote and prescribe their products to patients. In addition to this accusation the company was highly criticized on the composition of their product and the long-term effects of the painkiller on the patients. Although the company has never been judged guilty for these accusations the stock price has been affected by these variables of risk given the fact that the company currently relies on only one product.

Conclusion

Insys Therapeutics is a company with impressive financial results in the past years. The company was able to manage efficiently an important increase of revenue in order to enhance its abilities in the upcoming years. Despite several scandals and critics on their products they were able to create value. Furthermore Insys Therapeutics has constantly increased their research & developments to in order to establish a profitable pipeline for the years to come. To conclude I would say that the combination of these green flags with the recent decrease of share price is an interesting investment opportunity when looking towards earning calls and the issuance of their new product on the 15th of July 2016. In that aspect I would rate INSY as a BUY with a 1 year target price of $23.34 which implies a return of 33.46**%.** According to my valuation the probability of a price increase for this stock is 100**%.**

INSYS Therapeutics, Inc. (INSY)

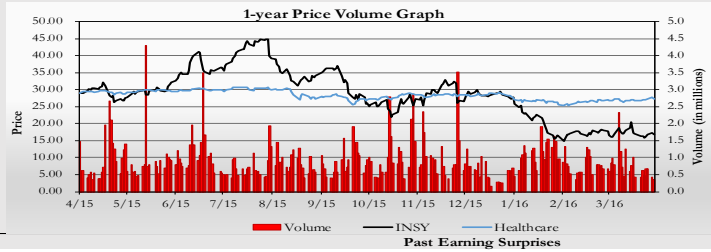
CENTER FOR GLOBAL FINANCIAL STUDIES

BULLISH

Analysis by Pierre Gouesclou — 4/8/2016

Current Price:	$17.49	Intrinsic Value	$19.10
Divident Yield:	0.0%	Target Price	$23.34

Target 1 year Return: 33.46%
Probability of Price Increase: 100%



Description

Insys Therapeutics, Inc., a specialty pharmaceutical company, develops and commercializes supportive care products.

General Information

Sector	Healthcare
Industry	Biotechnology
Last Guidance	November 3, 2015
Next earnings date	NM
Estimated Country Risk Premium	7.66%
Effective Tax rate	40%
Effective Operating Tax rate	42%

Market Data

Market Capitalization	$1,245.70
Daily volume (mil)	0.21
Shares outstanding (mil)	71.51
Diluted shares outstanding (mil)	75.71
% shares held by institutions	55%
% shares held by investments Managers	30%
% shares held by hedge funds	18%
% shares held by insiders	66.52%
Short interest	26.58%
Days to cover short interest	21.30
52 week high	$46.17
52-week low	$14.18
Levered Beta	0.95
Volatility	98.52%

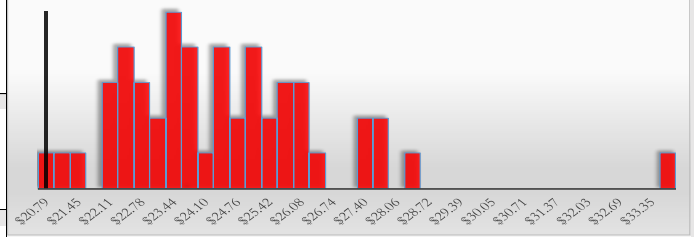
Past Earning Surprises

Quarter ending	Revenue	EBITDA
12/31/2014	4.82%	-36.15%
3/31/2015	-0.93%	-27.51%
6/30/2015	4.83%	-42.54%
9/30/2015	9.97%	49.34%
12/31/2015	0.10%	-2.58%
Mean	3.76%	-11.89%
Standard error	2.0%	16.7%

Peers

Sagent Pharmaceuticals, Inc.
DepoMed Inc.
Seattle Genetics, Inc.
Genomic Health Inc.
Emergent BioSolutions, Inc.
Pacira Pharmaceuticals, Inc.
Spectrum Pharmaceuticals, Inc.
Ariad Pharmaceuticals Inc.

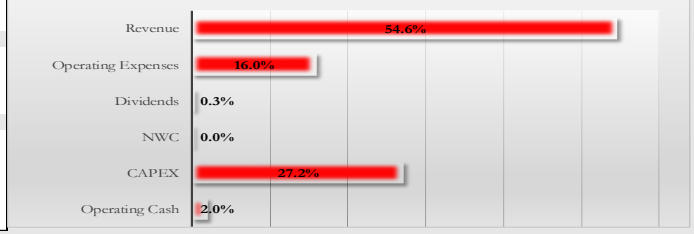
Target Price Distribution--P(price↑)=100%



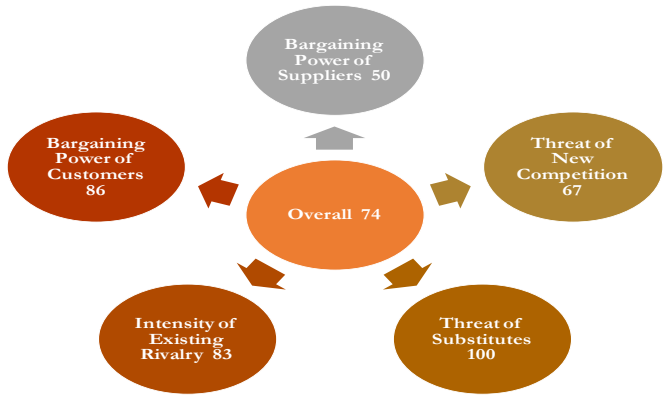
Management	Position	Total compensations growth	Total return to shareholders
Kapoor, John	Executive Chairman, Chief Ex	-100% per annum over 2y	185.66% per annum over 2y
Baker, Darryl	Chief Financial Officer	13.36% per annum over 2y	185.66% per annum over 2y
Del Fosse, Franc	General Counsel and Corporat	N/M	0% per annum over 0y
Brennan, Daniel	Chief Operating Officer and	N/M	N/M
Goskonda, Venkat	Senior Director of Pharmaceu	N/M	N/M
Chavan, Ashok	Director of Pharmaceutical O	N/M	N/M

Profitability	INSY (LTM)	INSY (5 years historical average)	Industry (LTM)
ROIC	72.0%	49.91%	12.40%
NOPAT Margin	43%	#DIV/0!	19.7%
Revenue/Invested Capital	1.68	#DIV/0!	0.63
ROE	58.0%	374.92%	13.92%
Adjusted net margin	43%	#DIV/0!	16.8%
Revenue/Adjusted Book Value	1.36	#DIV/0!	0.83
Invested Funds	**INSY (LTM)**	**INSY (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	36.9%	36.5%	30%
Estimated Operating Cash/Total Capital	18.4%	21.8%	N/A
Non-cash working Capital/Total Capital	1.2%	4.6%	7%
Invested Capital/Total Capital	71.6%	76.9%	63%
Capital Structure	**INSY (LTM)**	**INSY (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.01	5.09	0.15
Cost of Existing Debt	1.38%	3.30%	4.01%
Estimated Cost of new Borrowing	1.38%	4.22%	4.01%
CGFS Risk Rating	1.38%	CCC	CC
Unlevered Beta (LTM)	0.00%	0.28	0.91
WACC	1.38%	4.42%	9.57%

Sensitivity Attribution Analysis



Porter's 5 forces (scores are out of 100)



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	48.9%	42.7%	7.03
12/31/2016	10.6%	40.6%	4.56
12/31/2017	20.9%	48.6%	4.37
12/31/2018	29.8%	51.7%	4.52
12/31/2019	28.0%	48.7%	4.04
12/31/2020	18.0%	45.2%	3.31
12/31/2021	15.5%	41.9%	2.79
12/31/2022	13.0%	38.2%	2.33
12/31/2023	10.5%	34.4%	1.93
12/31/2024	8.0%	30.6%	1.58
12/31/2025	5.5%	26.8%	1.27
Continuing Period	3.0%	22.9%	1.00

Period	Invested Capital	Net Claims	Price per share
Base Year	$12.05	-$15.36	$19.66
12/31/2016	$2.59	-$113.95	$22.94
12/31/2017	$12.87	-$307.64	$26.74
12/31/2018	$86.14	-$553.36	$31.02
12/31/2019	$196.42	-$842.67	$35.85
12/31/2020	$308.85	-$1,177.42	$41.11
12/31/2021	$451.43	-$1,540.68	$46.75
12/31/2022	$583.58	-$1,922.10	$52.73
12/31/2023	$765.57	-$2,339.17	$59.37
12/31/2024	$992.02	-$2,697.96	$65.52
12/31/2025	$1,223.81	-$3,036.51	$71.80
Continuing Period			