



Health Care



DexCom, Inc. (NASDAQ: DXCM)

Recommendation: BUY

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Analysts

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Company Overview¹

DexCom, Inc. (NASDAQ: DXCM) is a San Diego, CA based medical device manufacturing company founded by John F. Burd in 1999, it engages in the design, development, and commercialization of glucose monitoring systems for ambulatory use by people with diabetes. Its products include DexCom G6 CGM System, DexCom G7 CGM System, and DexCom CGM Software and Mobile apps.

Stock Performance Highlights²

52 week High:	\$125.95
52 week Low:	\$66.89
Beta Value:	1.16
Average Daily Volume:	2.34 m

Share Highlights

Market Capitalization:	\$44.71 b
Shares Outstanding:	386.41 m
Float:	383.24 m
Short Interest:	3.63%
P/E Ratio:	131.48

Company Performance Highlights

2022 ROA:	6.92%
2022 ROE:	16.71%
2022 Sales:	\$2.91 b
2022 EBITDA Margin:	18.80%
2022 Net Income:	\$341 m

Financial Ratios

Current Ratio:	1.99
Inventory Turnover:	9.49
Fixed Asset Turnover:	2.76
Debt to Equity:	1.07
Debt to EBITDA:	3.60

Model Price Predictions

DCF/EP:	\$133.24
DDM:	\$132.21
Relative Valuation:	\$38-64

Current Price: \$119
Target Price: \$130-138

Investment Thesis

We recommend a BUY rating on Dexcom as the company continues to lead in the rapidly growing CGM market. Although Dexcom faces an uncertain growth trajectory and high revenue concentration, we believe Dexcom is well positioned to continue to lead the CGM market with their new G7 sensor. Dexcom benefits from a strong moat, with significant recurring revenue, high barriers to entry, a loyal customer base, and positive demographic trends. **This investment will yield 9-15% upside for investors.**

Drivers of Thesis

- **Transition of BGM systems to CGM systems is expected to accelerate:** We expect penetration of CGM systems to accelerate as availability increases due to higher coverage from Medicare, Medicaid, and Private Insurers. This will expand the total addressable market for CGM devices and benefit Dexcom's top line growth.
- **The U.S. population aged 65 and older will increase to over 20% in the next decade:** Demographic shifts in the United States will increase spending in the Health Care sector. This will increase the addressable market for diabetic care and create a significant opportunity for Dexcom.
- **International Expansion:** We believe Dexcom is well positioned to tap into unpenetrated markets in Europe, China, and India due to their extremely advanced product and customer service ecosystem.

Risks to Thesis

- **High revenue concentration:** Dexcom's only business is the sale of CGM sensors and CGM hardware. A slowdown or disruption in the CGM market would harm Dexcom.
- **Threat of noninvasive CGM solution:** It has been reported that Apple has been working on integrating a CGM product into their Apple watch. Full development of this product would likely bifurcate the existing CGM market.

One Year Stock Performance



Company Overview & Strategy:

Overview

Dexcom is a medical device company that develops and manufactures continuous glucose monitoring (CGM) systems for individuals with diabetes. Dexcom's CGM systems are designed to assist individuals with diabetes in better managing their glucose levels in real-time, by providing continuous and precise glucose readings throughout the day and night. Dexcom's revenue is primarily generated by the sale of CGM devices and reoccurring sales of sensors which require replacement every 1-2 weeks. Additionally, Dexcom generates revenue from the sale of software and services, including data management tools, mobile apps, and remote monitoring options that allow healthcare providers and caregivers the ability to expand their capabilities in diabetes management.

Strategy

Dexcom's proposition to maintain its competitive advantage is to engage in developmental and commercial partnerships, expand product offerings to new geographical regions and patient demographics, and invest into manufacturing operations to decrease input costs and increase production capacity.

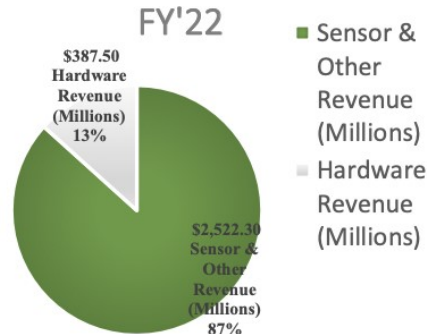
More specifically, Dexcom plans to continue to participate in partnerships with insulin pump and pen companies to provide modern CGMs that can integrate with insulin delivery systems. Regarding product expansion, Dexcom is planning to continue expanding into Europe and Asia as well as offer products to patients with type 2 diabetes who do not receive insulin therapy. Additionally, Dexcom plans to commercialize products that serve pregnant individuals and children. Lastly, Dexcom is planning to open a production facility in Malaysia to increase capacity and to lower costs.

Revenue Analysis:

In FY2022, Dexcom's total revenue amounted to \$2.909 billion, reflecting a significant increase of 19% compared to the previous fiscal year. Dexcom's revenue is categorized into two key segments, namely the Disposable Sensor & Other Revenue segment and the Reusable Hardware Revenue segment. The noteworthy increase in revenue for FY2022 was primarily attributable to the higher volume of disposable sensors sold and an increase in market share driven by product offering expansion into geographical areas outside of the US. In FY2022, the Sensor & Other revenue segment accounted for a substantial portion of Dexcom's total revenue, comprising 87% or \$2,533.3 million, while the remaining 13% or \$387.5 million was attributed to the Reusable Hardware revenue segment. Notably, there was a 3% increase in the proportion of Sensor & Other

revenue compared to the previous fiscal year. Overall, Dexcom's FY2022 financial results demonstrate a robust performance with significant organic revenue growth driven by increased sales of disposable sensors and expanding international market presence.

Revenue Segments



Data: SEC

Disposable Sensor & Other Revenue

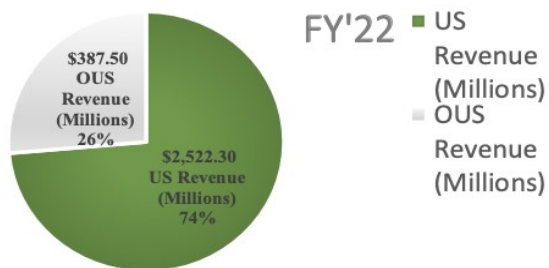
The Disposable Sensor & other revenue segment primarily consists of the Dexcom disposable sensor which functions beneath the epidermis to provide glucose values. The disposable sensor which lasts 10 days and is a significant source of reoccurring revenue.

Reusable Hardware Revenue

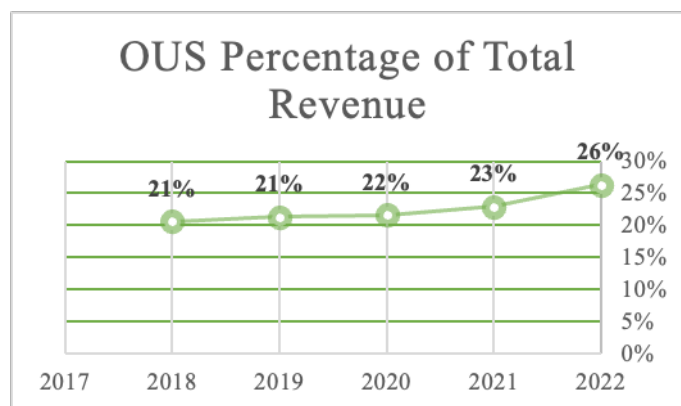
The Reusable Hardware Revenue segment consists of transmitters and receivers. The transmitter attaches to the disposable sensor and provides electric signals to the receiver providing patient vitals. The transmitter has a useful life of 3 months. The receiver is an optional device that contains a screen which displays the vitals. If users do not want to use a receiver, they can view vitals via smartphone.

Geographic Segments

A significant portion of Dexcom's sales, amounting to 76%, were generated in the United States, while 26% were generated outside of the United States (OUS). Notably, OUS sales have shown an upward trend, accounting for 26% of the total revenue in FY2022, up from 24% in FY2021. This increase can be attributed to Dexcom's expanding global presence resulting from the successful launch of new product lines and increased coverage from payers. A noteworthy milestone was the approval of Dexcom One for prescription use in the UK in August 2022, which likely contributed to the growth in international sales.



Data: SEC



Data: SEC

Insights on Revenue for Dexcom:

Strengths:

Quality Long-term Sales Growth: Dexcom’s revenue is recurring in nature, as it is generated through ongoing sales of its disposable continuous glucose monitoring (CGM) device sensors. This revenue model provides a consistent source of revenue over time, which is expected to result in sustainable long-term sales growth for the company.

Cost Efficiency: Dexcom’s revenue model is expected to result in decreasing costs over time, as retaining existing customers is often more cost-effective compared to acquiring new ones. This is because maintaining a loyal customer base typically requires lower marketing and sales expenses, and has higher success rates, leading to improved cost efficiencies in the long run.

Market Diversification: Dexcom is actively expanding its coverage for its CGM products in European and Asian countries, which is diversifying its consolidated revenue and expanding its total addressable market. For example, Dexcom One, one of its CGM products, was added to the national formulary for patients with intensively managed diabetes in the UK. This market diversification strategy reduces the company's dependence on a single market and increases its potential for revenue growth in different geographies.

Product Upgrade Cycles: Dexcom has received FDA marketing approval for its newest CGM product, the G7, and has begun selling it in the US. Moreover,

the company has implemented a bridge program to expedite the allocation of the G7 product to its current customers, showcasing a proactive approach to product innovation. Dexcom’s continuous focus on developing new and advanced CGM products demonstrates its commitment to staying at the forefront of technological advancements in the diabetes management industry.

Weaknesses:

Revenue Consolidation: Dexcom’s revenue is primarily consolidated in one country, the United States, which may pose a risk in terms of dependence on a single market. Any adverse changes in the US market or regulatory environment could potentially impact Dexcom’s revenue and financial performance.

Limited Product Portfolio: Dexcom currently produces CGM devices only in one disease category, which is diabetes. While Dexcom has a strong presence in the diabetes management market, this limited product portfolio could potentially limit its revenue potential and increase vulnerability to market fluctuations. Diversification into other disease categories or expanding its product offerings may be a consideration for Dexcom to mitigate this risk and explore new revenue streams.

Overall, Dexcom’s recurring revenue model, market diversification efforts, and product innovation showcases its strengths in its revenue generation strategy. However, its revenue concentration in one country and limited product portfolio are areas that may need further consideration for sustained growth and mitigating risks in the ever-evolving healthcare industry.

Expense Analysis:

Dexcom’s major expense categories for FY2022 consist of Cost of Sales, Selling, General, and Administrative, and R&D. Operating expenses which do not include Cost of Sales were 51% of revenue in FY2022 totaling \$1,491.9B. The most notable expense categories for Dexcom include Research and Development and Selling, General, and Administrative expenses. Research and Development expenses are imperative in Dexcom’s efforts to update its product line and remain competitive in the medical device industry where products are updated or replaced shortly after they are commercialized. Dexcom’s R&D expense decreased by 7% from \$517.1 million to \$484.2 million due to lower third-party and consulting fees related to new products.

R&D expenses as a percentage of revenue have averaged about 18% in the last 5 years. Management has reported that they have continued to invest more capital in software research rather than hardware research. Selling, General and Administrative expenses increased primarily due to \$54.1 million in compensation-related costs most notably due to higher headcount, \$26.0 million in advertising and marketing costs due to an increase in worldwide marketing campaigns, \$23.0 million in long-lived asset impairment charges, \$21.5 million in legal expense related to litigation, \$13.0 million in travel and entertainment expenses, and \$5.8 million in depreciation expense due to higher property and equipment balances and accelerated depreciation related to business transition activities.

Margin & Profit Analysis:

Dexcom posted strong Q4 2022 earnings by beating EPS consensus in Q4 2022 by a surprise of 25.9%. The consensus EPS was \$0.27, and the actual EPS was \$0.34. Actual revenue was in line with consensus estimates with actual revenue at \$815.20 million and consensus at \$814.52 million. Management projects another year of strong growth in FY2023. Management forecasts that revenue will reach \$3.35B this year, a 15% increase. The Wall Street analyst consensus is that the management's forecast is conservative. We forecast for revenue to grow around 19% in FY2023 primarily due to sales of the new G7 CGM, expansion in European and Asian markets, as well as growth in the incidence of diabetes.

Competition Analysis:

Dexcom is currently the leader in market share with an estimated market share of about 50%. Dexcom's main competitors are Medtronic, Abbott, Tandem Diabetes Care and Senseonics. Dexcom recently released its G7 CGM sensor which received FDA approval in December 2022. The G7 has increased accuracy, a simpler user interface, improved settings, and a more discrete profile than the G6 sensor. Dexcom's G7 has a life of 10 days before it must be replaced compared to 7 days for Medtronic's Guardian 3 sensor and 14 days for Abbott's Freestyle Libre 2. Sensor accuracy is measured by Mean Absolute Relative Difference (MARD). A lower percentage MARD indicates a more accurate reading. Dexcom's G7 is the most accurate product in the market, with 8.2% MARD, compared to 8.7% for Medtronic, and 9.3% for Abbott. The main way Dexcom differentiates itself from its competitors is through the user-friendly interface and highly accurate product, which can make it more attractive than Medtronic or Abbott. Overall, we expect Dexcom to remain the market leader, given their strong brand recognition, technology upgrade cycles, commercial partnerships, and pricing power due to superior products.

Industry Overview:

Dexcom operates in the medical technology space. More specifically it specializes in producing continuous glucose monitoring (CGM) sensors for diabetic clients. Sensors are covered by Medicare and most major insurance plans. They also have a limited use life of around 10-14 days. The CGM industry is an attractive market for multiple reasons. First, the revenue is naturally recurring and predictable. Recurring revenue is more attractive to investors than revenue that is cyclical or unpredictable. In addition, the addressable market of diabetic clients is growing in the United States. The percentage of population aged 65 and older is expected to increase to above 20% in the next decade.⁴ Positive demographic trends are driving predictable growth in the CGM space. The industry also has relatively higher barriers to entry. Significant R&D expenses are required, and the industry is well regulated. In addition, it would be difficult for a new company to enter the CGM space due to the existing relationship between consumers and CGM companies. Currently, the CGM market can be thought of as an effective Oligopoly. The top 4 CGM companies are Dexcom, Abbott, Medtronic, and Senseonics.⁵ There are other companies attempting to disrupt the industry through non-invasive CGM products. Most notably, Apple has been rumored to be working on a noninvasive CGM with their Apple watch.⁶ We are skeptical that a noninvasive CGM would be as accurate as existing CGM products however it is a medium to long term risk.

Porter's Five Forces:

Threat of Substitute Products:

In the short term, we are seeing increased adoption of CGM devices from BGM devices which use physical blood samples to track glucose levels. We expect this transition to accelerate into the decade as CGM devices are much more user friendly and lead to a higher quality of life for customers. Above all else, diabetics must monitor their glucose levels through either BGM or CGM to prevent health complications. Diabetes can cause blindness, nerve damage, heart disease, and kidney disease if not properly monitored.⁷ In the medium to long term there is potential for better solutions to monitor glucose. We are primarily concerned with noninvasive CGM devices because the potential impact of an alternative would be a disaster for Dexcom. However, we still think an effective noninvasive solution is still unlikely to cause a major market shift. The biggest problem with noninvasive solutions is accuracy. It is very important that blood sugar is monitored accurately to prevent it from

reaching dangerous levels. Research has shown that noninvasive methods are considerably less accurate than CGM sensors.⁸

Bargaining Power of Suppliers:

Suppliers have a high amount of bargaining power in the CGM space. As previously mentioned, CGM devices are crucial for the diabetic population. As a result of this, it is accepted by Medicare, Medicaid, and most private insurers.⁹ We expect this to continue and increase access to CGM products. There are some pain points as CGM suppliers attempt to lower costs in the pharmacy channel but expense reimbursement by insurers is expected to increase over time as CGM companies can prove that CGM improves diabetes management.¹⁰

Threat of New Entrants:

As we mentioned earlier, we view the CGM space as an effective Oligopoly. This has potential to change in the medium to long term, but right now significant market share is concentrated among 4 major players.⁵ These companies are well entrenched, and we think a new entrant into the market or major disruption in the short term is highly unlikely. We find the CGM industry to be highly attractive with characteristics that resemble a strong MOAT like recurring revenue, high barriers to entry, economies of scale, and in Dexcom's case, a strong brand.

Bargaining Power of Buyers:

Buyers have moderate buying power. In terms of product, they are forced to choose between BGM systems or CGM systems. Going without a monitoring system is very dangerous for diabetics so they must choose one. CGM systems are more convenient, accurate, and lead to better health outcomes than BGM systems. They are also getting cheaper as health insurers are starting to cover a higher percentage of costs which narrows the price gap between BGM and CGM systems.¹⁰ In terms of CGM system, the consumer also has a variety of choices. CGM companies will need to continue to invest in R&D to improve existing products and innovate in new technology.

Rivalry Among Existing Players:

There is a fair amount of competition between existing CGM companies. We believe that Dexcom is the strongest CGM company closely followed by Abbott. Dexcom's G7 and Abbott's Libre 3 have comparable product life while Dexcom's G7 is more accurate. Abbott's largest advantage is cost.¹¹ The Libre 3 is considerably cheaper than the G7 with estimated cost savings of between \$250 and \$2,250 over the life of

the patient.¹⁰ However, Dexcom has the highest user satisfaction and is by far the most flexible product in the CGM space. Dexcom's patient ecosystem is extremely strong. We believe it will provide them greater opportunities for international penetration than other CGM companies.¹⁰ Medtronic's CGM product is the Guardian 3. It has similar accuracy and cost to the G7 with a slightly shorter life; however, the Guardian has seen issues with user friendliness, and they have not been able to build as robust of an ecosystem as Dexcom.¹² Finally, Senseonics Eversense is a unique CGM product that is inserted completely under the skin. As a result, it has a life up to 6 months with comparable accuracy to other CGM products. Sensor insertion and removal operations are expensive. The Eversense product hits a subsegment of the CGM market that finds it more convenient because of the extended life but don't mind the invasiveness of the product.¹³

Economic Analysis

Capital Market Outlook:

2022 was an abrupt response to a virtuous 2021 which exhibited an historic comeback from the buffered yet devastating macroeconomic and capital market environment driven by the COVID-19 pandemic. The U.S. witnessed economic headwinds and its highest inflation in four decades driven by excessive fiscal stimulus, devastating bloodshed in Ukraine, and expansionary monetary policy that overstayed its welcome. The Krause Fund health care team forecasts 2023 to result in a year of economic contraction as we forecast real GDP to decrease by 0.8% in 2023 as a hawkish Fed continues to fight inflation and a tight labor market. The team forecasts the health care sector to continue to be defensive play and outperform the broader equity market in both the short and long-term.

Demographics:

Long-term US demographic trends play a crucial role in the robustness and demand of the US health care industry. Population age and ethnic changes influence the health care industry because these variables dictate the demand for health care products and services as well as the supply for those supplies and services. The US population is becoming older with approximately 16% of the population aged 65 years or older, a 36% increase over the last 10 years. Just as the proportion of the population of 65 years and older has increased, so has health expenditures for the group. The current consensus is that the proportion of individuals 65 years and older will increase from 16% to 25% by 2050.⁴ The increase in this cohort will increase the demand of health care services, products, and labor in the long-term. Health care companies stand to benefit from this increase in demand as the 65 and older cohort is susceptible to both chronic disease and

elective health care needs. Health care firms in almost all sub-sectors will be well positioned for secular growth as the aging of the US population promotes long-term demand for health care impervious to the business cycle.



14 Health Care Policy:

Health care policy is a vital economic influence on the health care industry as it affects a wide range of variables such as access to insurance coverage, drug pricing, and how services and products are delivered to consumers. Regulation will remain a key risk across the health care space for the foreseeable future. Regulation is less of a threat to Dexcom than other Health Care companies. Currently the Dexcom G6 and G7 sensors are covered by Medicare and most major Health Insurance plans. The average monthly cost for Dexcom varies by patient but is affordable with insurance. The sensors are unaffordable for most people without insurance. We expect that Medicare and Insurance will continue to cover the G6 and G7 and see little to no risk for Dexcom.¹⁵

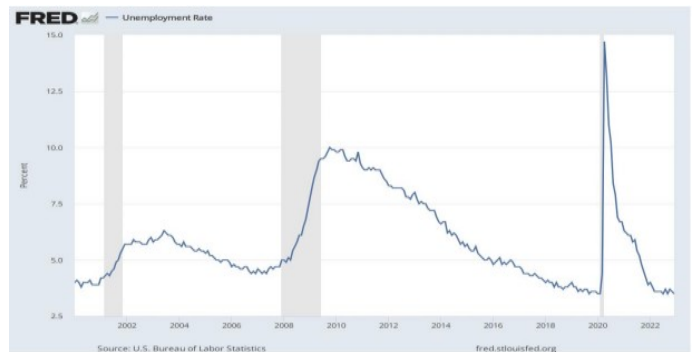
Technology Advancement:

Technology affects every aspect of the global economy, and it is a powerful driver of the economy in the health care sector. New technologies can be applied to all aspects of medical settings to provide patients with more comprehensive information reports. As the healthcare industry faces new challenges, technology solutions are helping leaders to improve performance, increase collaboration across systems and manage costs. Dexcom can leverage advancements in Health Care Technology to improve CGM sensor life, accuracy, and user experience. While technology advancement is largely a net positive for Dexcom we do note that there is moderate long-term risk of market displacement with noninvasive CGM devices.⁶

Unemployment:

Unemployment rates impact the health care industry due to more than half of the US population receiving health insurance via employer sponsored health insurance plans

impacting the demand for health care and reimbursements. Higher unemployment is associated with lower prescription drug use and higher out-of-pocket health care expenditures. What's more is that the unemployment/labor supply can strain health care supply resulting in lower quality care and higher wage costs affecting profitability. As of March 2023, according to the US Bureau of Labor Statistics, the US unemployment rate is 3.5%. The labor market has shown to be resilient despite headwinds in overall GDP growth and the highest rise in the federal funds rate in approximately 15 years, as the target range stands at 475 to 500 bps. We forecast the unemployment rate to increase to 4.0% in 12-18 months as consumers' confidence and pandemic related liquidity begins to dwindle which decreases demand and ultimately the need for labor. Regarding the demand for health care, we forecast the increase from 3.5% to 4.0% to have a minimal impact on the health care industry. The minimal impact is a result of high government participation in health care expenditures and the fact that health care demand is often not impacted by economic outcomes. As employees are excluded from the labor market and lose employee sponsored coverage, many will receive public health insurance because of increased Affordable Care Act subsidies targeting those who have no to little income. A small decrease in demand may be felt as some states such as Texas have more restrictive Medicare policies that prevent some individuals from accessing subsidies based on certain demographic characteristics. Regarding supply, health care employment tends to increase during recessions while the broader labor market has negative job growth because demand is stable, and workers are in need for employment.

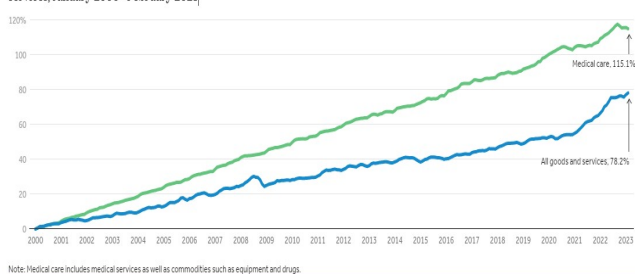


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U.S. Health Care Inflation:

Consumer prices have a significant influence on the health care industry because consumer research has shown that when medical prices become too elevated some individuals may avert much needed health care. As shown in the table below, typically health care cost exceeds broader consumer costs but now this is not the case. In March 2023 US CPI increased 5% YoY and US CPI-Medical Care increased 1.5%.¹⁷ We forecast medical prices to remain mostly unchanged with a YoY increase around 2%. We expect the industry to remain stable relative to other sector as public health expenditures buffer the decrease in private insurance reimbursements.

Cumulative percent change in Consumer Price Index (CPI) for medical care and for all goods and services, January 2000 - February 2023



Note: Medical care includes medical services as well as commodities such as equipment and drugs.

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Valuation Discussion

Revenue Decomposition:

Dexcom breaks out its revenue components into 2 segments. Disposable Sensors are the G6 and G7 CGM sensors that are sold to customers. In 2022 Disposable Sensors were 87% of revenue.¹⁹ Disposable sensors are expected to grow as a percentage of revenue in the future. Reusable Hardware represents the transmitters and software. These products do not need to be replaced as often as the CGM sensors which explains the much lower proportion of revenue. Dexcom management has guided for \$3.35 – 3.49 billion of revenue in 2023. This represents 15-20% growth.²⁰ We project revenue growth near the top of management’s range. We are optimistic about the recent G7 sensor launch in March and international expansion to drive revenue growth. We expect the Dexcom G7 sensor and Abbott Freestyle Libre 3 sensors to capture the majority of the CGM market. We estimate terminal year revenue growth to be 7.36%. This is supported by Dexcom’s leading position in the CGM market, recurring revenue, positive expected Demographic shifts, and an increasing market for type 2 diabetes. We estimate that Dexcom will remain in its high growth phase until it reaches steady state maturity in 2032.

Operating Expenses:

We used a mix of historical averages and management guidance to forecast COGS, SG&A, D&A, and R&D expenses. Currently Dexcom expects some gross margin compression due to the G7 launch.²⁰ We have forecasted gross margin to be 62.8% in 2023-2024, 63.75% in 2025-2026, and 65% post 2026. We expect gross margin to improve over time due to operating efficiencies and increased scale. We do note that there could be small margin variance due to international expansion and additional product launches. We are comfortable with our long-term margin estimate of 65%. Despite the gross margin compression, operating margin guidance is flat year over year, representing 150 to 250 basis points of operating expense leverage in 2023. We have forecasted SG&A expenses of 28.5% of revenue and R&D expenses

at 17.25% of revenue in 2023. CV year SG&A expenses decline to 28% of revenue while R&D expenses increase to 18%. We expect there to be additional operating efficiencies that incrementally reduce SG&A as a percentage of revenue however we do think there is potential upside to R&D expenses if Dexcom faces additional competitive pressures. We expect D&A to remain at the long-term depreciation rate average of 13.69% unless there is a major business shift or large-scale M&A.

WACC:

We have estimated a 9.13% WACC for Dexcom. WACC is one of the main inputs in our valuation models. To calculate the WACC we had to make assumptions on the Risk-Free Rate, Equity Risk Premium, and Beta. Dexcom has an above average WACC due to it being funded almost solely by Equity capital and high beta. The company does have outstanding convertible debt due in 2023 and 2025. However, the 2023 notes trade at a substantial premium to par and the 2025 notes trade at a moderate premium. This implies full conversion of the 2023 debt to equity, and we suspect that the 2025 debt will eventually convert as well. As a result of the implied conversion, we have included the convertible debt capital as a part of equity in the WACC calculation.²¹ Full share conversion is also included in our financial statement model. We are not surprised by the high WACC considering Dexcom’s limited access to debt capital and low earnings compared to enterprise value. As Dexcom approaches its terminal growth rate we expect the company to increase its proportion of debt capital to equity capital and even issue debt solely to buy back shares. An increasing proportion of debt to equity will naturally lower the WACC in future years. In addition, as earnings quality increases we believe that Dexcom’s beta has room to decline which would lower the cost of equity.

DDM Model:

Our main inputs for the DDM model were CV EPS growth, CV ROE, and Cost of Equity. We estimated CV EPS growth of 8.2%, and CV ROE of 30.83%. CV year EPS is \$3.60 per share in 2032 and our stock price in 2032 is \$283.13. Dexcom does not pay dividends, and we do not expect them to in the future, so the entire share value comes from the terminal year. The terminal year is discounted at our cost of equity of 9.14% to bring the implied price as of today to \$132.21. EPS growth and ROE is primarily impacted by revenue growth and a declining share count in later years due to buybacks with excess cash and fresh debt capital.

DCF / EP Model:

Our main inputs for the DCF and EP models were CV growth of NOPLAT, CV year ROIC, and WACC. We estimated CV growth of NOPLAT of 7.92%, CV ROIC of 38.53%, and WACC of 9.13%. Our CV growth of NOPLAT is high compared to most other firms, but we feel that Dexcom can achieve this growth rate due to their leading competitive position, demographic trends, recurring revenue, and increasing market for type 2

diabetes. The model calculates the value of operating assets using the above inputs and then adjusts for Excess Cash, Marketable Securities, and the estimated market value of Convertible Debt to calculate the value of equity. This is then divided by shares outstanding in 2022 to calculate an implied share price of \$133.24.

Relative Valuation:

The valuation multiples we used to derive the implied share price were Price/Sales, EV/Sales, and EV/EBITDA. The comparable universe we used contained 5 large-cap medical device companies, the comparable universe consists of Abbott Laboratories, Stryker, Boston Scientific, Edwards Lifesciences, and Insulet. We used these comparable companies because they can reflect what valuation Dexcom might expect as the company matures. The implied share price range based on the relative valuation is about \$38-\$64. We believe that the relative valuation method in this circumstance does not possess as much merit as the DCF and EP valuation methods due to Dexcom's lack of quality peers. Dexcom's specific product niche, the CGM market, is in its infancy stage and due to Dexcom's positioning as a pioneer in the market, they are much more profitable than companies with similar product offerings with a few exceptions. Most of Dexcom's true competitors currently have negative earnings and negative EBITDA.

Sensitivity Analysis

Beta vs ERP:

		Beta						
		1.00	1.05	1.10	1.16	1.20	1.25	1.30
ERP	133.24							
	4.65%	616.08	329.58	223.35	160.71	133.99	111.02	94.45
	4.70%	519.76	297.87	207.32	151.58	127.25	106.06	90.62
	4.75%	449.20	271.60	193.37	143.39	121.13	101.50	87.06
	4.82%	377.11	241.59	176.62	133.24	113.43	95.69	82.49
	4.90%	318.30	214.32	160.60	123.20	105.68	89.77	77.78
	4.95%	289.87	200.11	151.92	117.61	101.32	86.40	75.07
	5.00%	266.00	187.61	144.10	112.49	97.29	83.26	72.54

We tested the sensitivity of Beta and Equity Risk Premium on Dexcom's stock price. Both inputs are very sensitive. Dexcom has a relatively high Beta compared to its peers. We attribute this the company being in its growth stage and still far away from maturity. Revenue growth is high while earnings are low, which creates a wider range of bullish or bearish outcomes. Over time as Dexcom reaches steady state growth we believe the Beta will decline which would benefit the stock price. We used the Geometric Average Equity Risk Premium from 1990-2022. Similar to Beta, we expect the impact of ERP to decline as the company gets closer to steady state growth and proportion of debt financing increases.

CV Growth NOPLAT vs WACC:

		WACC						
		8.70%	8.85%	9.00%	9.13%	9.30%	9.45%	9.60%
CV Growth of NOPLAT	133.24							
	8.35%	457.37	317.73	242.55	200.78	163.42	140.05	122.29
	8.25%	358.05	266.49	211.56	179.10	148.79	129.19	113.94
	8.15%	294.84	229.88	187.86	161.85	136.71	120.00	106.75
	8.05%	251.08	202.43	169.15	147.79	126.56	112.12	100.48
	7.92%	211.61	176.01	150.33	133.24	115.76	103.57	93.57
	7.85%	194.45	164.00	141.49	126.26	110.47	99.32	90.09
	7.75%	175.08	150.02	130.98	117.84	103.98	94.05	85.74
	7.65%	159.39	138.38	122.03	110.55	98.27	89.37	81.83
	7.55%	146.44	128.52	114.31	104.19	93.22	85.18	78.31

Next, we measured CV year growth in NOPLAT against the WACC. Both inputs are very sensitive to changes. Our CV growth of NOPLAT is aggressive, but this is also balanced out by an above average WACC. Dexcom's WACC is elevated because they are still in their growth stage and primarily equity funded. Overall, we are confident that Dexcom will be able to compound NOPLAT at a high rate given the recurring revenue nature of the business, international growth opportunities, high barriers to entry, and demographic trends.

CV SG&A as % of Rev vs CV R&D as % of Rev:

		CV R&D as % of Revenue						
		17.25%	17.50%	17.75%	18%	18.25%	18.50%	18.75%
CV SG&A as % of Revenue	133.24							
	27.00%	130.23	130.32	130.47	130.67	130.93	131.26	131.65
	27.25%	130.55	130.70	130.91	131.18	131.51	131.92	132.41
	27.50%	130.94	131.15	131.43	131.77	132.19	132.69	133.27
	27.75%	131.39	131.68	132.03	132.46	132.96	133.56	134.26
	28.00%	131.93	132.29	132.73	133.24	133.85	134.56	135.38
	28.25%	132.55	133.00	133.53	134.15	134.87	135.70	136.66
	28.50%	133.27	133.81	134.44	135.18	136.02	137.00	138.11
	28.75%	134.09	134.74	135.49	136.35	137.34	138.47	139.76
	29.00%	135.04	135.80	136.67	137.68	138.83	140.14	141.63

We also wanted to test the sensitivity of operating expenses. Dexcom has guided for R&D expenses to be 18% of revenues and SG&A to be 28% for the foreseeable future. Small changes in the forecast don't change the share price very much. We don't expect large deviations from management's guidance, although we are less confident about the R&D forecast. We expect R&D expenses would not fall below 17% but if Dexcom feels sufficient competitive pressure it might encourage them to increase R&D expenses over time.

CV Depreciation Rate vs CV Capex:

		CV Depreciation Rate							
		133.24	12%	12.50%	13%	13.69%	14%	14.50%	15%
CV Capex	18%	132.93	132.46	132.06	131.59	131.41	131.16	130.95	
	18.50%	133.46	132.93	132.46	131.92	131.71	131.41	131.16	
	19.00%	134.06	133.46	132.93	132.30	132.06	131.71	131.41	
	19.50%	134.74	134.06	133.46	132.74	132.46	132.06	131.71	
	20.00%	135.51	134.74	134.06	133.25	132.93	132.46	132.06	
	20.50%	136.38	135.51	134.74	133.82	133.46	132.93	132.46	
	21%	137.34	136.38	135.51	134.48	134.06	133.46	132.93	
	21.50%	138.42	137.34	136.38	135.21	134.74	134.06	133.46	
	22%	139.63	138.42	137.34	136.04	135.51	134.74	134.06	

We thought it would be interesting to see the relationship between Depreciation and Capex. Changes with these variables don't affect the share price very much. This isn't surprising considering that Dexcom is a relatively asset light business. We don't foresee Depreciation and Capex changing significantly from the historical average unless there is a major business shift or large M&A.

CV Growth NOPLAT vs CV COGS as % of Rev

		CV Growth of NOPLAT							
		133.24	8.25%	8.15%	8.05%	7.92%	7.85%	7.75%	7.65%
CV COGS as % of Revenue	34.00%	190.45	172.04	157.05	141.31	134.11	125.14	117.38	
	34.25%	187.71	169.58	154.81	139.29	132.20	123.36	115.71	
	34.50%	184.98	167.11	152.56	137.28	130.29	121.58	114.04	
	34.75%	182.24	164.65	150.31	135.26	128.37	119.79	112.37	
	35.00%	179.51	162.18	148.07	133.24	126.46	118.01	110.71	
	35.25%	176.77	159.71	145.82	131.22	124.55	116.23	109.04	
	35.50%	174.04	157.25	143.57	129.21	122.64	114.45	107.37	
	35.75%	171.30	154.78	141.32	127.19	120.72	112.67	105.70	
	36.00%	168.57	152.32	139.08	125.17	118.81	110.89	104.03	

Finally, we measured CV Growth of NOPLAT against CV COGS as a % of Revenue. Change in COGS expenses of 100 basis points has a \$11-12 impact on the share price. Gross margin is currently 62-63% because of the G7 launch, but management is guiding for long term 65% gross margin (35% COGS expense).²⁰

Important Disclaimer:

This report was created by students enrolled in the Security Analysis (6F:112) class at the University of Iowa. The report was originally created to offer an internal investment recommendation for the University of Iowa Krause Fund and its advisory board. The report also provides potential employers and other interested parties an example of the students' skills, knowledge, and abilities. Members of the Krause Fund are not registered investment advisors, brokers or officially licensed financial professionals. The investment advice contained in this report does not represent an offer or solicitation to buy or sell any of the securities mentioned. Unless otherwise noted, facts and figures included in this report are from publicly available sources. This report is not a complete compilation of data, and its accuracy is not guaranteed. From time to time, the University of Iowa, its faculty, staff, students, or the Krause Fund may hold a financial interest in the companies mentioned in this report.

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DexCom Inc.
Revenue Decomposition

Fiscal Years Ending Dec. 31	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
(In Millions)																	
Revenue by Segment																	
Disposable Sensors	\$401.31	\$502.95	\$773.70	\$1,151.28	\$ 1,560.63	\$ 2,056.74	\$ 2,531.53	\$ 3,063.15	\$ 3,645.14	\$ 4,283.04	\$ 4,968.33	\$ 5,713.58	\$ 6,513.48	\$ 7,360.24	\$ 8,243.46	\$ 9,150.24	\$ 9,841.09
Reusable Hardware	\$171.99	\$215.55	\$257.90	\$324.72	\$ 366.07	\$ 342.79	\$ 378.27	\$ 412.32	\$ 447.37	\$ 483.16	\$ 519.39	\$ 557.05	\$ 596.04	\$ 636.27	\$ 677.63	\$ 719.98	\$ 755.98
Total Revenue	\$573.30	\$718.50	\$1,031.60	\$1,476.00	\$1,926.70	\$2,399.53	\$2,909.80	\$ 3,475.47	\$ 4,092.51	\$ 4,766.20	\$ 5,487.72	\$ 6,270.63	\$ 7,109.52	\$ 7,996.51	\$ 8,921.10	\$ 9,870.23	\$ 10,597.07
Year over Year growth	25.33%	43.58%	43.08%	30.54%	24.54%	21.27%	19.44%	17.75%	16.46%	15.14%	14.27%	13.38%	12.48%	11.56%	10.64%	7.36%	
Segment Growth %																	
Disposable Sensors		25.33%	53.83%	48.80%	35.56%	31.79%	23.08%	21.00%	19.00%	17.50%	16.00%	15.00%	14.00%	13.00%	12.00%	11.00%	7.55%
Reusable Hardware		25.33%	19.65%	25.91%	12.73%	-6.36%	10.35%	9.00%	8.50%	8.00%	7.50%	7.25%	7.00%	6.75%	6.50%	6.25%	5.00%
Disposable Sensors % of Rev	70.00%	70.00%	75.00%	78.00%	81.00%	85.71%	87.00%	88.14%	89.07%	89.86%	90.54%	91.12%	91.62%	92.04%	92.40%	92.71%	92.87%
Reusable Hardware % of Rev	30.00%	30.00%	25.00%	22.00%	19.00%	14.29%	13.00%	11.86%	10.93%	10.14%	9.46%	8.88%	8.38%	7.96%	7.60%	7.29%	7.13%

DexCom Inc.
Balance Sheet

Fiscal Years Ending Dec. 31	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
(In Millions)																	
Assets:																	
Current Assets:																	
Cash and cash equivalents	\$94.50	\$441.50	\$1,137.00	\$446.20	\$817.60	\$1,052.60	\$642.30	\$665.61	\$912.25	\$802.34	\$1,316.66	\$980.45	\$1,267.40	\$1,635.34	\$1,730.57	\$1,748.83	\$1,673.75
Short-term marketable securities	\$29.20	\$107.10	\$248.60	\$1,087.10	\$1,890.10	\$1,678.60	\$1,813.90	\$1,886.46	\$1,961.91	\$2,040.39	\$2,122.01	\$2,206.89	\$2,295.16	\$2,386.97	\$2,482.45	\$2,581.75	\$2,685.02
Accounts receivable, net	\$101.70	\$134.30	\$226.70	\$286.30	\$428.50	\$514.30	\$713.30	\$722.55	\$850.83	\$990.89	\$1,140.90	\$1,303.66	\$1,478.07	\$1,662.47	\$1,854.70	\$2,052.02	\$2,203.13
Inventory	\$45.40	\$45.20	\$70.70	\$119.80	\$234.70	\$357.30	\$306.70	\$330.17	\$388.79	\$452.79	\$521.33	\$595.71	\$675.40	\$759.67	\$847.50	\$937.67	\$1,006.72
Prepaid and other current assets	\$9.20	\$16.60	\$16.50	\$30.00	\$53.90	\$81.60	\$192.60	\$100.79	\$118.68	\$138.22	\$159.14	\$181.85	\$206.18	\$231.90	\$258.71	\$286.24	\$307.32
Total Current Assets	\$280.00	\$744.70	\$1,699.50	\$1,969.40	\$3,424.80	\$3,684.40	\$3,668.80	\$3,705.57	\$4,232.47	\$4,424.63	\$5,260.04	\$5,268.56	\$5,922.21	\$6,676.35	\$7,173.93	\$7,606.51	\$7,875.94
Property and equipment, net	\$109.40	\$145.60	\$183.10	\$321.30	\$515.30	\$801.80	\$1,055.60	\$1,122.16	\$1,192.92	\$1,268.14	\$1,348.10	\$1,433.10	\$1,523.46	\$1,619.53	\$1,721.64	\$1,830.20	\$1,945.60
Operating lease right-of-use assets	\$0.00	\$0.00	\$0.00	\$71.50	\$93.30	\$88.10	\$80.00	\$80.00	\$80.00	\$80.00	\$80.00	\$80.00	\$80.00	\$80.00	\$80.00	\$80.00	\$80.00
Goodwill	\$11.30	\$12.10	\$18.70	\$18.60	\$19.30	\$26.50	\$25.70	\$25.70	\$25.70	\$25.70	\$25.70	\$25.70	\$25.70	\$25.70	\$25.70	\$25.70	\$25.70
Intangibles	\$0.00	\$0.00	\$0.00	\$18.60	\$19.30	\$31.50	\$173.30	\$136.00	\$100.20	\$67.00	\$35.70	\$7.10	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Deferred Tax Assets		\$16.10	\$4.00	\$0.00	\$216.40	\$290.50	\$341.20	\$341.20	\$341.20	\$341.20	\$341.20	\$341.20	\$341.20	\$341.20	\$341.20	\$341.20	\$341.20
Other assets	\$2.10	\$1.70	\$14.70	\$14.20	\$21.40	\$10.50	\$47.10	\$47.10	\$47.10	\$47.10	\$47.10	\$47.10	\$47.10	\$47.10	\$47.10	\$47.10	\$47.10
Total Assets	\$402.80	\$904.10	\$1,916.00	\$2,395.00	\$4,290.50	\$4,933.30	\$5,391.70	\$5,457.73	\$6,019.59	\$6,253.77	\$7,137.84	\$7,202.76	\$7,939.68	\$8,789.88	\$9,389.57	\$9,930.71	\$10,315.54
Liabilities and Stockholders' Equity:																	
Current Liabilities:																	
Accounts payable and accrued liabilities	\$68.10	\$87.20	\$147.10	\$256.40	\$481.10	\$573.00	\$901.80	\$670.42	\$789.45	\$919.40	\$1,058.58	\$1,209.60	\$1,371.43	\$1,542.53	\$1,720.88	\$1,903.97	\$2,044.17
Accrued payroll and related expenses	\$33.40	\$48.50	\$72.40	\$88.50	\$114.30	\$125.20	\$134.30	\$204.70	\$241.05	\$280.73	\$323.23	\$369.34	\$418.75	\$470.99	\$525.45	\$581.36	\$624.17
Short-term operating lease liabilities				\$13.60	\$16.50	\$20.50	\$20.50	\$17.12	\$17.12	\$17.12	\$17.12	\$17.12	\$17.12	\$17.12	\$17.12	\$17.12	\$17.12
Deferred revenue	\$0.90	\$3.20	\$2.90	\$1.70	\$2.20	\$2.10	\$10.10	\$7.65	\$9.00	\$10.49	\$12.07	\$13.80	\$15.64	\$17.59	\$19.63	\$21.71	\$23.31
Total Current Liabilities	\$102.40	\$138.90	\$222.40	\$360.20	\$614.10	\$720.80	\$1,839.30	\$899.89	\$1,056.62	\$1,227.73	\$1,411.00	\$1,609.86	\$1,822.94	\$2,048.23	\$2,283.08	\$2,524.16	\$2,708.78
Long-term senior convertible notes		\$327.60	\$1,010.30	\$1,059.70	\$1,667.20	\$1,981.80	\$1,970.30	\$2,195.48	\$2,195.48	\$987.48	\$987.48	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Long-term senior debt												\$1,000.00	\$1,250.00	\$1,500.00	\$1,750.00	\$2,000.00	\$2,250.00
Long-term operating lease liabilities				\$72.40	\$101.80	\$98.60	\$94.60	\$88.10	\$88.10	\$88.10	\$88.10	\$88.10	\$88.10	\$88.10	\$88.10	\$88.10	\$88.10
Other long-term liabilities	\$16.60	\$18.20	\$20.00	\$20.10	\$80.90	\$90.00	\$128.30	\$128.30	\$128.30	\$128.30	\$128.30	\$128.30	\$128.30	\$128.30	\$128.30	\$128.30	\$128.30
Total Liabilities	\$119.00	\$484.70	\$1,252.70	\$1,512.40	\$2,464.00	\$2,891.20	\$3,259.90	\$3,311.78	\$3,468.50	\$2,431.62	\$2,614.89	\$2,826.26	\$3,289.34	\$3,764.64	\$4,249.48	\$4,740.56	\$5,175.18
Additional paid-in capital	\$905.80	\$1,093.80	\$1,560.70	\$1,676.00	\$2,125.40	\$2,109.10	\$2,258.50	\$3,033.32	\$3,033.32	\$4,241.32	\$4,241.32	\$4,241.32	\$4,241.32	\$4,241.32	\$4,241.32	\$4,241.32	\$4,241.32
Accumulated other comprehensive income (loss)	(\$1.00)	(\$2.60)	\$1.50	\$2.30	\$3.20	\$0.50	(\$11.60)	(\$11.60)	(\$11.60)	(\$11.60)	(\$11.60)	(\$11.60)	(\$11.60)	(\$11.60)	(\$11.60)	(\$11.60)	(\$11.60)
Retained earnings	(\$621.00)	(\$671.80)	(\$798.90)	(\$695.70)	(\$202.10)	\$138.70	\$479.90	\$969.24	\$1,544.37	\$2,237.43	\$3,038.24	\$3,991.78	\$5,065.62	\$6,290.52	\$7,655.37	\$9,155.43	\$10,755.64
Treasury Stock			(\$100.00)	(\$100.00)	(\$100.00)	(\$206.20)	(\$595.00)	(\$1,845.00)	(\$2,015.00)	(\$2,645.00)	(\$2,745.00)	(\$3,845.00)	(\$4,645.00)	(\$5,495.00)	(\$6,745.00)	(\$8,195.00)	(\$9,845.00)
Total Stockholders' Equity	\$283.80	\$419.40	\$663.30	\$882.60	\$1,826.50	\$2,042.10	\$2,131.80	\$2,145.95	\$2,551.08	\$3,822.15	\$4,522.95	\$4,376.50	\$4,650.33	\$5,025.24	\$5,140.09	\$5,190.15	\$5,140.36
Total Liabilities and Stockholders' Equity	\$402.80	\$904.10	\$1,916.00	\$2,395.00	\$4,290.50	\$4,933.30	\$5,391.70	\$5,457.73	\$6,019.59	\$6,253.77	\$7,137.84	\$7,202.76	\$7,939.68	\$8,789.88	\$9,389.57	\$9,930.71	\$10,315.54

DexCom Inc.

Historical Cash Flow Statement

Fiscal Years Ending Dec. 31	2016	2017	2018	2019	2020	2021	2022
(In Millions)							
Operating Activities:							
Net income	(\$65.60)	(\$50.20)	(\$127.10)	\$101.10	\$549.70	\$216.90	\$341.20
Adjustments to reconcile net income to cash provided by operating activities:							
Depreciation and amortization	\$16.30	\$16.10	\$29.10	\$48.70	\$67.10	\$102.00	\$155.90
Share-based compensation	\$110.80	\$106.20	\$101.90	\$102.70	\$119.40	\$113.40	\$126.50
Collaborative research and development fee						\$87.10	
Non-cash interest expense		\$9.40	\$17.90	\$49.60	\$7.00	\$7.20	\$6.30
Deferred income taxes					(\$260.50)	\$15.80	(\$21.60)
Other non-cash income and expenses	\$1.00	\$7.90	\$360.00	\$6.30	\$13.70	\$31.90	\$34.50
Changes in Operating Assets and Liabilities:							
Accounts receivable, net	(\$27.20)	(\$31.80)	(\$93.20)	(\$60.00)	(\$142.30)	(\$75.50)	(\$199.90)
Inventory	(\$9.80)	\$0.40	(\$25.50)	(\$49.10)	(\$114.50)	(\$112.20)	\$49.30
Prepaid and other assets	(\$3.90)	(\$6.70)	(\$3.00)	(\$7.20)	(\$2.40)	(\$21.30)	(\$131.60)
Operating lease right-of-use assets and liabilities, net				(\$2.40)	(\$0.80)	(\$0.10)	(\$5.80)
Accounts payable and accrued liabilities	\$21.10	\$21.10	\$56.20	\$109.00	\$194.50	\$58.00	\$295.10
Accrued payroll and related expenses	\$8.50	\$14.80	\$23.80	\$16.00	\$26.10	\$10.40	\$8.50
Deferred revenue and other liabilities	\$5.00	\$4.80	\$0.80	(\$0.20)	\$18.60	\$8.70	\$11.10
Net cash provided by operating activities	\$56.20	\$92.00	\$123.20	\$314.50	\$475.60	\$442.50	\$669.50
Investing Activities:							
Purchase of marketable securities	(\$39.20)	(\$171.80)	(\$452.50)	(\$2,030.40)	(\$3,058.20)	(\$2,473.10)	(\$2,266.30)
Proceeds from sale and maturity of marketable securities	\$38.70	\$93.40	\$391.10	\$1,195.20	\$2,250.50	\$2,666.30	\$2,127.80
Purchases of property and equipment	(\$55.70)	(\$66.00)	(\$67.10)	(\$180.00)	(\$199.00)	(\$389.20)	(\$364.80)
Acquisitions, net of cash acquired	\$0.30		(\$11.30)			(\$30.20)	(\$3.90)
Other investing activities					(\$11.30)	\$10.10	(\$14.30)
Net cash used in investing activities	(\$55.90)	(\$144.40)	(\$139.80)	(\$1,015.20)	(\$1,018.00)	(\$216.10)	(\$521.50)
Financing Activities:							
Net proceeds from issuance of common stock	\$10.40	\$10.10	\$10.80	\$11.90	\$15.30	\$20.30	\$22.50
Purchases of treasury stock			(\$100.00)				(\$557.70)
Proceeds from issuance of convertible notes, net of issuance costs		\$389.00	\$836.60		\$1,188.80		
Repurchase of convertible notes					(\$282.60)		
Proceeds from sale of warrants			\$183.80				
Purchase of convertible note hedge			(\$218.90)				
Proceeds from short-term borrowings		\$75.00					
Repayment of short-term borrowings		(\$75.00)					
Other financing activities	(\$2.30)		(\$1.90)	(\$1.20)	(\$9.40)	(\$9.90)	(\$17.30)
Net cash provided by (used in) financing activities	\$8.10	\$399.10	\$710.40	\$10.70	\$912.10	\$10.40	(\$552.50)
Effect of exchange rate changes on cash, cash equivalents and restricted cash		\$0.30	\$1.80	(\$0.70)	\$2.10	(\$1.40)	(\$5.80)
Increase(decrease) in cash	\$8.40	\$347.00	\$695.60	(\$690.70)	\$371.80	\$235.40	(\$410.30)
Cash at the beginning of the period	\$86.10	\$94.50	\$441.50	\$1,137.10	\$446.40	\$818.20	\$1,053.60
Cash at the end of the period	\$94.50	\$441.50	\$1,137.10	\$446.40	\$818.20	\$1,053.60	\$643.30

DexCom Inc.

Common Size Income Statement

Fiscal Years Ending Dec. 31	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Revenue	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Cost of sales	34.00%	31.51%	35.64%	36.89%	33.56%	31.37%	35.28%	37.20%	37.20%	36.25%	36.25%	35.00%	35.00%	35.00%	35.00%	35.00%	35.00%
Gross profit	66.00%	68.49%	64.36%	63.11%	66.44%	68.63%	64.72%	62.80%	62.80%	63.75%	63.75%	65.00%	65.00%	65.00%	65.00%	65.00%	65.00%
Operating Expenses:																	
Depreciation & Amortization	2.84%	2.24%	2.82%	3.30%	3.35%	4.01%	5.10%	4.42%	3.99%	3.64%	3.36%	3.13%	2.93%	2.77%	2.64%	2.54%	2.51%
Research and development	27.23%	25.80%	19.36%	18.53%	18.68%	21.12%	16.64%	17.25%	17.25%	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%
Collaborative research and development fee			21.10%			3.56%											
Selling, general and administrative	47.08%	46.36%	39.13%	31.64%	28.60%	28.78%	29.02%	24.08%	24.51%	24.86%	24.89%	25.12%	25.32%	25.23%	25.36%	25.46%	25.49%
Total operating expenses	77.15%	74.41%	82.42%	53.47%	50.90%	53.76%	51.27%	46.82%	46.62%	47.20%	46.82%	46.71%	46.35%	46.00%	46.00%	46.00%	46.00%
Operating income	-11.15%	-5.92%	-18.06%	9.64%	15.54%	10.86%	13.44%	15.98%	16.18%	16.55%	16.93%	18.29%	18.65%	19.00%	19.00%	19.00%	19.00%
Interest expense	-0.05%	-1.78%	-2.20%	-4.09%	-0.92%	-0.77%	-0.64%	-0.66%	-0.56%	-0.23%	-0.20%	-0.89%	-0.98%	-1.04%	-1.09%	-1.13%	-1.18%
Income from equity investments			7.76%	-0.41%		0.47%	0.01%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Interest and other income (expense), net	-0.12%	0.93%	0.23%	1.79%	0.84%	-0.07%	0.62%	2.83%	2.49%	2.41%	2.07%	2.19%	1.79%	1.78%	1.80%	1.71%	1.63%
Income before income taxes	-11.32%	-6.76%	-12.26%	7.06%	15.46%	10.49%	13.43%	18.14%	18.11%	18.74%	18.80%	19.59%	19.46%	19.74%	19.71%	19.58%	19.46%
Income tax expense (benefit)	0.12%	0.22%	0.06%	0.21%	-13.07%	1.63%	1.70%	4.06%	4.05%	4.20%	4.21%	4.39%	4.36%	4.42%	4.41%	4.38%	4.36%
Net income	-11.44%	-6.99%	-12.32%	6.85%	28.53%	8.86%	11.73%	14.08%	14.05%	14.54%	14.59%	15.21%	15.10%	15.32%	15.30%	15.20%	15.10%

DexCom Inc.

Forecasted Cash Flow Statement

Fiscal Years Ending Dec. 31	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Operating Activities:										
Net Income:	\$489.34	\$575.13	\$693.06	\$800.81	\$953.55	\$1,073.83	\$1,224.91	\$1,364.85	\$1,500.06	\$1,600.21
Depreciation & Amortization	\$153.67	\$163.36	\$173.67	\$184.62	\$196.26	\$208.63	\$221.79	\$235.77	\$250.64	\$266.44
Change in Accounts Receivable	(\$9.25)	(\$128.28)	(\$140.06)	(\$150.00)	(\$162.77)	(\$174.41)	(\$184.40)	(\$192.22)	(\$197.32)	(\$151.11)
Change in Inventories	(\$23.47)	(\$58.62)	(\$64.00)	(\$68.54)	(\$74.38)	(\$79.69)	(\$84.26)	(\$87.84)	(\$90.17)	(\$69.05)
Change in Prepaid and Other Assets	\$91.81	(\$17.89)	(\$19.54)	(\$20.92)	(\$22.70)	(\$24.33)	(\$25.72)	(\$26.81)	(\$27.52)	(\$21.08)
Change in Accounts Payable and Accrued Liabilities	(\$231.38)	\$119.03	\$129.95	\$139.18	\$151.02	\$161.82	\$171.10	\$178.35	\$183.09	\$140.21
Change in Accrued Payroll and Related Expenses	\$70.40	\$36.34	\$39.68	\$42.50	\$46.11	\$49.41	\$52.24	\$54.46	\$55.90	\$42.81
Change in Short Term Operating Lease Liabilities	(\$3.38)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Change in Long Term Operating Lease Liabilities	(\$6.50)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Change in Deferred Revenue	(\$2.45)	\$1.36	\$1.48	\$1.59	\$1.72	\$1.85	\$1.95	\$2.03	\$2.09	\$1.60
Cash Flow From Operations	\$528.80	\$690.42	\$814.25	\$929.22	\$1,088.81	\$1,217.12	\$1,377.60	\$1,528.59	\$1,676.76	\$1,810.03
Investing Activities:										
Sale (Purchase) of Marketable Securities	(\$72.56)	(\$75.46)	(\$78.48)	(\$81.62)	(\$84.88)	(\$88.28)	(\$91.81)	(\$95.48)	(\$99.30)	(\$103.27)
Purchases of Property and Equipment	(\$220.24)	(\$234.12)	(\$248.88)	(\$264.58)	(\$281.26)	(\$299.00)	(\$317.85)	(\$337.89)	(\$359.20)	(\$381.84)
Other Investing Activities	\$37.30	\$35.80	\$33.20	\$31.30	\$28.60	\$7.10	\$0.00	\$0.00	\$0.00	\$0.00
Cash Flow From Investing Activities	(\$255.49)	(\$273.78)	(\$294.16)	(\$314.89)	(\$337.54)	(\$380.17)	(\$409.65)	(\$433.37)	(\$458.49)	(\$485.11)
Financing Activities:										
Net Proceeds from Convertible Notes	\$1,000.00	\$0.00	\$0.00	\$0.00	(\$987.48)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Net Proceeds from Senior Debt				\$0.00	\$1,000.00	\$250.00	\$250.00	\$250.00	\$250.00	\$250.00
Net Proceeds from Common Stock	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Share Repurchases	(\$1,250.00)	(\$170.00)	(\$630.00)	(\$100.00)	(\$1,100.00)	(\$800.00)	(\$850.00)	(\$1,250.00)	(\$1,450.00)	(\$1,650.00)
Other Financing Activities	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Cash Flow From Financing Activities	(\$250.00)	(\$170.00)	(\$630.00)	(\$100.00)	(\$1,087.48)	(\$550.00)	(\$600.00)	(\$1,000.00)	(\$1,200.00)	(\$1,400.00)
Increase (Decrease) in Cash	\$ 23.31	\$ 246.64	\$ (109.91)	\$ 514.32	\$ (336.21)	\$ 286.94	\$ 367.95	\$ 95.23	\$ 18.26	\$ (75.08)
Cash at Beginning of Period	\$ 642.30	\$ 665.61	\$ 912.25	\$ 802.34	\$ 1,316.66	\$ 980.45	\$ 1,267.40	\$ 1,635.34	\$ 1,730.57	\$ 1,748.83
Cash at End of Period	\$ 665.61	\$ 912.25	\$ 802.34	\$ 1,316.66	\$ 980.45	\$ 1,267.40	\$ 1,635.34	\$ 1,730.57	\$ 1,748.83	\$ 1,673.75

DexCom Inc.
Common Size Balance Sheet Revenue

Fiscal Years Ending Dec. 31	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Revenue	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Assets																	
Assets:																	
Current Assets:																	
Cash and cash equivalents	16.48%	61.45%	110.22%	30.23%	42.44%	42.99%	22.07%	19.15%	22.29%	16.83%	23.99%	15.64%	17.83%	20.45%	19.40%	17.72%	15.79%
Short-term marketable securities	5.09%	14.91%	24.10%	73.65%	98.10%	68.56%	62.34%	54.28%	47.94%	42.81%	38.67%	35.19%	32.28%	29.85%	27.83%	26.16%	25.34%
Accounts receivable, net	17.74%	18.69%	21.98%	19.40%	22.24%	21.00%	24.51%	20.79%	20.79%	20.79%	20.79%	20.79%	20.79%	20.79%	20.79%	20.79%	20.79%
Inventory	7.92%	6.29%	6.85%	8.12%	12.18%	14.59%	10.54%	9.50%	9.50%	9.50%	9.50%	9.50%	9.50%	9.50%	9.50%	9.50%	9.50%
Prepaid and other current assets	1.60%	2.31%	1.60%	2.03%	2.80%	3.33%	6.62%	2.90%	2.90%	2.90%	2.90%	2.90%	2.90%	2.90%	2.90%	2.90%	2.90%
Total current assets	48.84%	103.65%	164.74%	133.43%	177.75%	150.48%	126.08%	106.62%	103.42%	92.83%	95.85%	84.02%	83.30%	83.49%	80.42%	77.07%	74.32%
Property and equipment, net	19.08%	20.26%	17.75%	21.77%	26.75%	32.75%	36.28%	32.29%	29.15%	26.61%	24.57%	22.85%	21.43%	20.25%	19.30%	18.54%	18.36%
Operating lease right-of-use assets				4.84%	4.84%	3.60%	2.75%	2.30%	1.95%	1.68%	1.46%	1.28%	1.13%	1.00%	0.90%	0.81%	0.75%
Goodwill	1.97%	1.68%	1.81%	1.26%	1.00%	1.08%	0.88%	0.74%	0.63%	0.54%	0.47%	0.41%	0.36%	0.32%	0.29%	0.26%	0.24%
Other assets	0.37%	0.24%	1.42%	0.96%	1.11%	0.43%	1.62%	1.36%	1.15%	0.99%	0.86%	0.75%	0.66%	0.59%	0.53%	0.48%	0.44%
Total Assets	70.26%	125.83%	185.73%	162.26%	222.69%	201.48%	185.29%	157.04%	147.09%	131.21%	130.07%	114.87%	111.68%	109.92%	105.25%	100.61%	97.34%
Liabilities and Stockholders' Equity:																	
Current Liabilities:																	
Accounts payable and accrued liabilities	11.88%	12.14%	14.26%	17.37%	24.97%	23.40%	30.99%	19.29%	19.29%	19.29%	19.29%	19.29%	19.29%	19.29%	19.29%	19.29%	19.29%
Accrued payroll and related expenses	5.83%	6.75%	7.02%	6.00%	5.93%	5.11%	4.62%	5.89%	5.89%	5.89%	5.89%	5.89%	5.89%	5.89%	5.89%	5.89%	5.89%
Short-term operating lease liabilities				0.92%	0.86%	0.84%	0.70%	0.49%	0.42%	0.36%	0.31%	0.27%	0.24%	0.21%	0.19%	0.17%	0.16%
Deferred revenue	0.16%	0.45%	0.28%	0.12%	0.11%	0.09%	0.35%	0.22%	0.22%	0.22%	0.22%	0.22%	0.22%	0.22%	0.22%	0.22%	0.22%
Total current liabilities	17.86%	19.33%	21.56%	24.40%	31.87%	29.44%	63.21%	25.89%	25.82%	25.76%	25.71%	25.67%	25.64%	25.61%	25.59%	25.57%	25.56%
Long-term senior convertible notes		45.59%	97.94%	71.80%	86.53%	80.94%	67.71%	63.17%	53.65%	20.72%	17.99%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Long-term operating lease liabilities				4.91%	5.28%	4.03%	3.25%	2.54%	2.15%	1.85%	1.61%	1.41%	1.24%	1.10%	0.99%	0.89%	0.83%
Other long-term liabilities	2.90%	2.53%	1.94%	1.36%	4.20%	3.68%	4.41%	3.69%	3.13%	2.69%	2.34%	2.05%	1.80%	1.60%	1.44%	1.30%	1.21%
Total Liabilities	20.76%	67.46%	121.43%	102.47%	127.89%	118.08%	112.03%	95.29%	84.75%	51.02%	47.65%	45.07%	46.27%	47.08%	47.63%	48.03%	48.84%
Shareholders' Equity																	
Commitments and contingencies																	
Additional paid-in capital	158.00%	152.23%	151.29%	113.55%	110.31%	86.14%	77.62%	87.28%	74.12%	88.99%	77.29%	67.64%	59.66%	53.04%	47.54%	42.97%	40.02%
Accumulated other comprehensive income (loss)	-0.17%	-0.36%	0.15%	0.16%	0.17%	0.02%	-0.40%	-0.33%	-0.28%	-0.24%	-0.21%	-0.18%	-0.16%	-0.15%	-0.13%	-0.12%	-0.11%
Retained earnings	-108.32%	-93.50%	-77.44%	-47.13%	-10.49%	5.66%	16.49%	27.89%	37.74%	46.94%	55.36%	63.66%	71.25%	78.67%	85.81%	92.76%	101.50%
Treasury Stock			-9.69%	-6.78%	-5.19%	-8.42%	-20.45%	-53.09%	-49.24%	-55.49%	-50.02%	-61.32%	-65.33%	-68.72%	-75.61%	-83.03%	-92.90%
Total Stockholders' Equity	49.50%	58.37%	64.30%	59.80%	94.80%	83.40%	73.26%	61.75%	62.34%	80.19%	82.42%	69.79%	65.41%	62.84%	57.62%	52.58%	48.51%
Total Liabilities and Stockholders' Equity	70.26%	125.83%	185.73%	162.26%	222.69%	201.48%	185.29%	157.04%	147.09%	131.21%	130.07%	114.87%	111.68%	109.92%	105.25%	100.61%	97.34%

DexCom Inc.

Value Driver Estimation

Fiscal Years Ending Dec. 31	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
(In Millions)																
NOPLAT:																
Revenue	\$718.50	\$1,031.60	\$1,476.00	\$1,926.70	\$2,448.50	\$2,909.80	\$3,475.47	\$4,092.51	\$4,766.20	\$5,487.72	\$6,270.63	\$7,109.52	\$7,996.51	\$8,921.10	\$9,870.23	\$10,597.07
Cost of sales	\$226.40	\$367.70	\$544.50	\$646.60	\$768.00	\$1,026.70	\$1,292.87	\$1,522.41	\$1,727.75	\$1,989.30	\$2,194.72	\$2,488.33	\$2,798.78	\$3,122.38	\$3,454.58	\$3,708.97
Selling General & Administrative	\$333.10	\$403.70	\$467.00	\$551.10	\$704.80	\$844.30	\$836.83	\$1,003.00	\$1,184.70	\$1,365.67	\$1,575.20	\$1,799.81	\$2,017.24	\$2,262.14	\$2,513.03	\$2,700.74
Depreciation & Amortization	\$16.10	\$29.10	\$48.70	\$64.60	\$98.30	\$148.40	\$153.67	\$163.36	\$173.67	\$184.62	\$196.26	\$208.63	\$221.79	\$235.77	\$250.64	\$266.44
Research and development	\$185.40	\$199.70	\$273.50	\$359.90	\$517.10	\$484.20	\$599.52	\$705.96	\$857.92	\$987.79	\$1,128.71	\$1,279.71	\$1,439.37	\$1,605.80	\$1,776.64	\$1,907.47
Collaborative research and development fee	\$0.00	\$217.70	\$0.00	\$0.00	\$87.10	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Implied Interest on Operating Leases	\$3.48	\$3.21	\$3.95	\$5.51	\$7.59	\$7.68	\$7.37	\$7.37	\$7.37	\$7.37	\$7.37	\$7.37	\$7.37	\$7.37	\$7.37	\$7.37
EBITA	(\$39.02)	\$252.31	\$146.25	\$310.01	\$454.99	\$413.88	\$599.93	\$705.14	\$829.54	\$967.72	\$1,183.11	\$1,340.40	\$1,526.70	\$1,702.37	\$1,882.71	\$2,020.81
Less: Adj. Taxes																
Income tax expense (benefit)	\$1.60	\$0.60	\$3.10	(\$251.80)	\$39.90	\$49.60	\$141.17	\$165.92	\$199.94	\$231.03	\$275.09	\$309.79	\$353.38	\$393.75	\$432.76	\$461.65
Tax shield on interest expense	(\$9.56)	(\$16.95)	(\$45.04)	(\$13.22)	(\$14.04)	(\$13.89)	(\$17.18)	(\$17.18)	(\$8.16)	(\$8.16)	(\$41.87)	(\$52.14)	(\$62.41)	(\$72.68)	(\$82.95)	(\$93.22)
Tax on Interest or Investment Income	\$0.00	\$17.98	(\$1.02)	\$0.00	\$2.67	\$0.04	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Tax on Interest and other income(expense), Net	\$1.70	\$0.54	\$6.38	\$3.67	(\$0.41)	\$4.03	\$22.00	\$22.86	\$25.74	\$25.46	\$30.80	\$28.55	\$31.91	\$36.02	\$37.73	\$38.78
Tax on Lease Interest	\$0.88	\$0.72	\$0.96	\$1.25	\$1.75	\$1.72	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Total Adjusted Taxes:	(\$7.15)	(\$34.52)	(\$35.49)	(\$262.61)	\$21.03	\$37.97	\$145.98	\$171.59	\$217.52	\$248.33	\$264.02	\$286.20	\$322.88	\$357.10	\$387.54	\$407.22
Change in Deferred Taxes	\$0.00	\$0.00	\$0.00	(\$260.50)	\$15.80	(\$21.60)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
NOPLAT	(\$31.87)	\$286.83	\$181.75	\$312.11	\$449.76	\$354.31	\$453.95	\$533.55	\$612.01	\$719.39	\$919.09	\$1,054.20	\$1,203.82	\$1,345.28	\$1,495.17	\$1,613.59
Invested Capital (IC):																
Operating Current Assets																
Normal Cash	\$118.43	\$170.04	\$243.30	\$317.59	\$403.60	\$479.64	\$572.88	\$674.59	\$785.64	\$904.57	\$1,033.62	\$1,171.90	\$1,318.11	\$1,470.51	\$1,626.96	\$1,746.77
Accounts receivable, net	\$134.30	\$226.70	\$286.30	\$428.50	\$514.30	\$713.30	\$722.55	\$850.83	\$990.89	\$1,140.90	\$1,303.66	\$1,478.07	\$1,662.47	\$1,854.70	\$2,052.02	\$2,203.13
Inventory	\$45.20	\$70.70	\$119.80	\$234.70	\$357.30	\$306.70	\$330.17	\$388.79	\$452.79	\$521.33	\$595.71	\$675.40	\$759.67	\$847.50	\$937.67	\$1,006.72
Prepaid and other current assets	\$16.60	\$16.50	\$30.00	\$53.90	\$81.60	\$192.60	\$100.79	\$118.68	\$138.22	\$159.14	\$181.85	\$206.18	\$231.90	\$258.71	\$286.24	\$307.32
Non Interest-Bearing Current Liabilities																
Accounts payable and accrued liabilities	\$87.20	\$147.10	\$256.40	\$481.10	\$573.00	\$901.80	\$670.42	\$789.45	\$919.40	\$1,058.58	\$1,209.60	\$1,371.43	\$1,542.53	\$1,720.88	\$1,903.97	\$2,044.17
Accrued payroll and related expenses	\$48.50	\$72.40	\$88.50	\$114.30	\$125.20	\$134.30	\$204.70	\$241.05	\$280.73	\$323.23	\$369.34	\$418.75	\$470.99	\$525.45	\$581.36	\$624.17
Deferred revenue	\$3.20	\$2.90	\$1.70	\$2.20	\$2.10	\$10.10	\$7.65	\$9.00	\$10.49	\$12.07	\$13.80	\$15.64	\$17.59	\$19.63	\$21.71	\$23.31
Plus: PPE																
Property and equipment, net	\$145.60	\$183.10	\$321.30	\$515.30	\$801.80	\$1,055.60	\$1,122.16	\$1,192.92	\$1,268.14	\$1,348.10	\$1,433.10	\$1,523.46	\$1,619.53	\$1,721.64	\$1,830.20	\$1,945.60
Plus: Net Other Operating Assets																
Capitalized PV of Payments	\$45.87	\$56.48	\$72.40	\$101.80	\$98.60	\$94.60	\$88.10	\$88.10	\$88.10	\$88.10	\$88.10	\$88.10	\$88.10	\$88.10	\$88.10	\$88.10
Other Operating Assets	\$2.10	\$2.10	\$2.10	\$2.10	\$2.10	\$2.10	\$2.10	\$2.10	\$2.10	\$2.10	\$2.10	\$2.10	\$2.10	\$2.10	\$2.10	\$2.10
Less: Other Operating Liabilities																
Other non interest-bearing operating liabilities	\$18.20	\$20.00	\$20.10	\$80.90	\$90.00	\$128.30	\$128.30	\$128.30	\$128.30	\$128.30	\$128.30	\$128.30	\$128.30	\$128.30	\$128.30	\$128.30
Total Invested Capital:	\$351.00	\$483.23	\$708.50	\$975.39	\$1,469.00	\$1,670.04	\$1,927.68	\$2,148.22	\$2,386.96	\$2,642.06	\$2,917.11	\$3,211.10	\$3,522.46	\$3,849.01	\$4,187.96	\$4,479.79
Free Cash Flow (FCF):																
NOPLAT	(\$31.87)	\$286.83	\$181.75	\$312.11	\$449.76	\$354.31	\$453.95	\$533.55	\$612.01	\$719.39	\$919.09	\$1,054.20	\$1,203.82	\$1,345.28	\$1,495.17	\$1,613.59
Change in IC	\$57.93	\$132.23	\$225.27	\$266.89	\$493.61	\$201.04	\$257.64	\$220.54	\$238.75	\$255.10	\$275.04	\$293.99	\$311.36	\$326.55	\$338.95	\$291.83
FCF	(\$89.79)	\$154.61	(\$43.52)	\$45.22	(\$43.85)	\$153.27	\$196.30	\$313.01	\$373.26	\$464.29	\$644.04	\$760.21	\$892.46	\$1,018.73	\$1,156.22	\$1,321.76
Return on Invested Capital (ROIC):																
NOPLAT	(\$31.87)	\$286.83	\$181.75	\$312.11	\$449.76	\$354.31	\$453.95	\$533.55	\$612.01	\$719.39	\$919.09	\$1,054.20	\$1,203.82	\$1,345.28	\$1,495.17	\$1,613.59
Beginning IC	\$293.08	\$351.00	\$483.23	\$708.50	\$975.39	\$1,469.00	\$1,670.04	\$1,927.68	\$2,148.22	\$2,386.96	\$2,642.06	\$2,917.11	\$3,211.10	\$3,522.46	\$3,849.01	\$4,187.96
ROIC	-10.87%	81.72%	37.61%	44.05%	46.11%	24.12%	27.18%	27.68%	28.49%	30.14%	34.79%	36.14%	37.49%	38.19%	38.85%	38.53%
Economic Profit (EP):																
Beginning IC	\$293.08	\$351.00	\$483.23	\$708.50	\$975.39	\$1,469.00	\$1,670.04	\$1,927.68	\$2,148.22	\$2,386.96	\$2,642.06	\$2,917.11	\$3,211.10	\$3,522.46	\$3,849.01	\$4,187.96
x (ROIC - WACC)	-20.00%	72.59%	28.48%	34.92%	36.98%	14.99%	18.05%	18.55%	19.36%	21.01%	25.66%	27.01%	28.36%	29.06%	29.72%	29.40%
EP	(\$58.62)	\$254.79	\$137.64	\$247.44	\$360.73	\$220.22	\$301.51	\$357.59	\$415.92	\$501.51	\$677.92	\$787.92	\$910.71	\$1,023.74	\$1,143.83	\$1,231.31

DexCom Inc.*Weighted Average Cost of Capital (WACC) Estimation***Cost of Equity:**

Risk-Free Rate	3.55%
Beta	1.16
Equity Risk Premium	4.82%
Cost of Equity	9.14%

ASSUMPTIONS:

*U.S. 10 year Treasury Bond
Y Charts beta (5 year, Monthly)
Geometric Average Risk Premium 1990-2022*

Cost of Debt:

Risk-Free Rate	3.55%
Implied Default Premium	3.45%
Pre-Tax Cost of Debt	7.00%
Marginal Tax Rate	22%
After-Tax Cost of Debt	5.43%

U.S. 10 year Treasury Bond

Market Value of Common Equity:

Total Shares Outstanding	386.60
Current Stock Price	\$115.70
MV of Equity	46,925.10

MV Weights

99.78%

Market Value of Debt:

Short-Term Debt	
Current Portion of LTD	
Long-Term Debt	
PV of Operating Leases	\$105.22
MV of Total Debt	105.22

Note: Convertible debt trades very Equity like so counted as part of Equity.

0.22%

Market Value of the Firm**47,030.33**

100.00%

Estimated WACC**9.13%**

DexCom Inc.*Dividend Discount Model (DDM) or Fundamental P/E Valuation Model*

Fiscal Years Ending Dec. 31	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EPS	\$ 1.24	\$ 1.44	\$ 1.59	\$ 1.68	\$ 2.02	\$ 2.30	\$ 2.65	\$ 2.99	\$ 3.33	\$ 3.60
EPS Growth	42.03%	15.78%	10.00%	6.21%	20.00%	13.96%	15.16%	12.67%	11.38%	8.20%
ROE	22.95%	26.80%	27.17%	20.95%	21.08%	24.54%	26.34%	27.16%	29.18%	30.83%

Key Assumptions

CV growth of EPS	8.20%
CV Year ROE	30.83%
Cost of Equity	9.14%

Future Cash Flows

P/E Multiple (CV Year)											79
EPS (CV Year)											\$ 3.60
Future Stock Price											\$ 283.13
Implied Dividends Per Share	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Discounted Cash Flows	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	\$ 128.90

Intrinsic Value as of Last FYE	\$ 128.90
Implied Price as of Today	\$ 132.28

DexCom Inc.

Relative Valuation Models

Ticker	Company	Price	Market Cap	Shares Outstanding	EV	EBITA	Sales	Price/Sales	EV/Sales	EV/EBITDA
ABT	Abbott Laboratories	\$103.96	\$180,676.90	1737.90	\$188,671.89	\$11,629.00	\$43,653.00	4.14x	4.32x	16.22x
SYK	Stryker	\$291.76	\$110,527.80	378.80	\$122,125.80	\$4,531.00	\$18,449.00	5.99x	6.62x	26.95x
BSX	Boston Scientific	\$51.77	\$74,278.60	1434.80	\$82,483.57	\$2,960.00	\$12,682.00	5.86x	6.50x	27.87x
EW	Edwards Lifesciences	\$84.36	\$51,317.30	608.30	\$50,792.82	\$1,869.20	\$5,382.40	9.53x	9.44x	27.17x
PODD	Insulet	\$318.82	\$22,171.50	69.50	\$22,929.56	\$100.80	\$1,305.30	16.99x	17.57x	227.48x
Average								8.50x	8.89x	24.55x

DXCM DexCom Inc. \$115.70 \$44,708.10 386.40 \$44,219.11 \$ 547.10 \$ 2,909.80

Implied Relative Value:

Price/Sales Equity Value **\$24,737.35**
 EV/Sales Enterprise Value **\$25,867.57**
 EV/EBITDA Enterprise Value **\$13,433.67**

Implied Share Price

\$64.02
\$67.96
\$37.94

DexCom Inc.

Key Management Ratios

<i>Fiscal Years Ending Dec. 31</i>	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Liquidity Ratios:																	
Current Ratio (Current Assets/Current Liabilities)	2.73	5.36	7.64	5.47	5.58	5.11	1.99	4.12	4.01	3.60	3.73	3.27	3.25	3.26	3.14	3.01	2.91
Quick Ratio [(Cash + ST Securities + Net AR)/ CL]	2.20	4.92	7.25	5.05	5.11	4.50	1.72	3.64	3.53	3.12	3.25	2.79	2.77	2.78	2.66	2.53	2.42
Cash Ratio (Cash + Equivalents / CL)	0.92	3.18	5.11	1.24	1.33	1.46	0.35	0.74	0.86	0.65	0.93	0.61	0.70	0.80	0.76	0.69	0.62
Asset-Management Ratios:																	
Inventory Turnover Ratio (Net Sales/Inventory)	12.63	15.90	14.59	12.32	8.21	6.85	9.49	10.53	10.53	10.53	10.53	10.53	10.53	10.53	10.53	10.53	10.53
Days Sales In Inventory (365/Inventory Turnover)	28.90	22.96	25.02	29.63	44.46	53.26	38.47	34.68	34.68	34.68	34.68	34.68	34.68	34.68	34.68	34.68	34.68
Fixed Asset Turnover (Sales / Net Fixed Assets)	5.24	4.93	5.63	4.59	3.74	3.05	2.76	3.10	3.43	3.76	4.07	4.38	4.67	4.94	5.18	5.39	5.45
Financial Leverage Ratios:																	
Debt to Equity Ratio (Total Debt / Total Equity)	0.06	0.82	1.55	1.32	1.02	1.07	1.04	1.13	0.95	0.32	0.27	0.05	0.05	0.05	0.05	0.04	0.05
Debt to Assets Ratio (Total Debt / Total Assets)	0.00	0.36	0.53	0.44	0.39	0.40	0.37	0.40	0.36	0.16	0.14	0.00	0.00	0.00	0.00	0.00	0.00
Debt to EBITDA Ratio (Total Debt / Total EBITDA)	0.00	-12.41	-6.43	5.55	4.55	5.39	3.60	3.10	2.66	1.03	0.89	0.00	0.00	0.00	0.00	0.00	0.00
Profitability Ratios:																	
Return on Equity (NI/Beg TSE)		-17.69%	-30.31%	15.24%	62.28%	11.88%	16.71%	22.95%	26.80%	27.17%	20.95%	21.08%	24.54%	26.34%	27.16%	29.18%	30.83%
Return on Assets (NI/Beg Total Assets)		-12.46%	-14.06%	5.28%	22.95%	5.06%	6.92%	9.08%	10.54%	11.51%	12.81%	13.36%	14.91%	15.43%	15.53%	15.98%	16.11%
EBITDA Margin (EBITDA / Revenue)	-8.30%	-3.67%	-15.24%	12.94%	19.03%	15.02%	18.80%	20.40%	20.17%	20.20%	20.29%	21.42%	21.58%	21.77%	21.64%	21.54%	21.51%
Payout Policy Ratios:																	
Total Payout Ratio ((Divs. + Repurchases)/NI)	0.00%	0.00%	113.38%	0.00%	0.00%	0.00%	143.22%	255.45%	29.56%	90.90%	12.49%	115.36%	74.50%	69.39%	91.59%	96.66%	103.11%

DexCom Inc.

Effects of ESOP Exercise and Share Repurchases on Common Stock Account and Number of Shares Outstanding

Number of Options Outstanding (shares):	0
Average Time to Maturity (years):	<u>5.43</u>
Expected Annual Number of Options Exercised:	0

Current Average Strike Price:	\$ 10.54
Cost of Equity:	9.14%
Current Stock Price:	\$115.70

Note: Total Share Increase in 2023 and 2025 is due to full conversion of existing convertible debt

<i>Fiscal Years Ending Dec. 31</i>	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Increase in Shares Outstanding:	0	0	0	0	0	0	0	0	0	0
Average Stock Price:	\$115.70	\$ 126.27	\$ 137.81	\$ 150.40	\$ 164.14	\$ 179.14	\$ 195.50	\$ 213.36	\$ 232.86	\$ 254.13
Increase in Common Stock Account:	-	-	-	-	-	-	-	-	-	-
Share Repurchases (\$)	1,250	170	630	100	1,100	800	850	1,250	1,450	1,650
Expected Price of Repurchased Shares:	\$ 115.70	\$ 126.27	\$ 137.81	\$ 150.40	\$ 164.14	\$ 179.14	\$ 195.50	\$ 213.36	\$ 232.86	\$ 254.13
Number of Shares Repurchased:	10.80	1.35	4.57	0.66	6.70	4.47	4.35	5.86	6.23	6.49
Shares Outstanding (beginning of the year)	386.60	399.82	398.47	476.03	475.36	468.66	464.20	459.85	453.99	447.76
Less: Shares Repurchased in Treasury	10.80	1.35	4.57	0.66	6.70	4.47	4.35	5.86	6.23	6.49
Shares Outstanding (end of the year)	399.82	398.47	476.03	475.36	468.66	464.20	459.85	453.99	447.76	441.27

DexCom Inc.
Sensitivity Tables

		Beta						
		1.00	1.05	1.10	1.16	1.20	1.25	1.30
ERP	133.31							
	4.65%	616.34	329.72	223.45	160.78	134.06	111.07	94.50
	4.70%	519.99	298.00	207.42	151.65	127.32	106.11	90.66
	4.75%	449.40	271.72	193.46	143.46	121.19	101.55	87.10
	4.82%	377.27	241.70	176.70	133.31	113.48	95.74	82.53
	4.90%	318.44	214.42	160.67	123.26	105.73	89.82	77.82
	4.95%	290.00	200.20	152.00	117.67	101.37	86.45	75.11
	5.00%	266.12	187.69	144.17	112.54	97.34	83.30	72.58

		WACC						
		8.70%	8.85%	9.00%	9.13%	9.30%	9.45%	9.60%
CV Growth of NOPLAT	133.31							
	8.35%	457.59	317.88	242.66	200.88	163.50	140.11	122.35
	8.25%	358.22	266.61	211.66	179.19	148.87	129.25	114.00
	8.15%	294.98	229.99	187.95	161.93	136.78	120.06	106.80
	8.05%	251.20	202.53	169.23	147.86	126.63	112.18	100.53
	7.92%	211.71	176.10	150.41	133.30	115.82	103.62	93.61
	7.85%	194.54	164.08	141.56	126.32	110.52	99.37	90.13
	7.75%	175.16	150.09	131.05	117.89	104.03	94.10	85.78
	7.65%	159.47	138.44	122.09	110.60	98.32	89.41	81.87
	7.55%	146.51	128.58	114.37	104.24	93.26	85.22	78.35

		CV Growth of NOPLAT						
		8.25%	8.15%	8.05%	7.92%	7.85%	7.75%	7.65%
CV COGS as % of Revenue	133.31							
	34.00%	190.54	172.13	157.13	141.38	134.18	125.20	117.43
	34.25%	187.80	169.66	154.88	139.36	132.26	123.42	115.77
	34.50%	185.07	167.19	152.63	137.34	130.35	121.63	114.10
	34.75%	182.33	164.72	150.38	135.32	128.44	119.85	112.43
	35.00%	179.60	162.26	148.14	133.30	126.52	118.07	110.76
	35.25%	176.86	159.79	145.89	131.29	124.61	116.29	109.09
	35.50%	174.12	157.32	143.64	129.27	122.70	114.50	107.42
	35.75%	171.39	154.86	141.39	127.25	120.78	112.72	105.75
	36.00%	168.65	152.39	139.14	125.23	118.87	110.94	104.08

		CV R&D as % of Revenue						
		17.25%	17.50%	17.75%	18%	18.25%	18.50%	18.75%
CV SG&A as % of Revenue	133.31							
	27.00%	130.29	130.39	130.53	130.73	130.99	131.32	131.72
	27.25%	130.61	130.76	130.97	131.24	131.58	131.98	132.47
	27.50%	131.00	131.21	131.49	131.83	132.25	132.75	133.33
	27.75%	131.46	131.74	132.09	132.52	133.03	133.63	134.32
	28.00%	131.99	132.35	132.79	133.31	133.92	134.63	135.44
	28.25%	132.62	133.06	133.59	134.21	134.93	135.77	136.72
	28.50%	133.33	133.87	134.51	135.24	136.09	137.06	138.18
	28.75%	134.16	134.80	135.55	136.41	137.40	138.53	139.83
	29.00%	135.10	135.86	136.74	137.74	138.89	140.21	141.70

		CV Depreciation Rate						
		12%	12.50%	13%	13.69%	14%	14.50%	15%
CV Capex	133.31							
	18%	132.99	132.53	132.12	131.65	131.47	131.22	131.02
	18.50%	133.52	132.99	132.53	131.98	131.77	131.47	131.22
	19.00%	134.13	133.52	132.99	132.37	132.12	131.77	131.47
	19.50%	134.81	134.13	133.52	132.81	132.53	132.12	131.77
	20.00%	135.58	134.81	134.13	133.31	132.99	132.53	132.12
	20.50%	136.44	135.58	134.81	133.89	133.52	132.99	132.53
	21%	137.41	136.44	135.58	134.54	134.13	133.52	132.99
	21.50%	138.49	137.41	136.44	135.28	134.81	134.13	133.52
	22%	139.70	138.49	137.41	136.10	135.58	134.81	134.13