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DEXCOM INCORPORATED (DXCM)

May 4, 2026

Medical Technology - Continuous Glucose Monitoring

Stock Rating **BUY**

Investment Thesis

We initiate coverage of DexCom, Inc. (NASDAQ: DXCM) with a BUY rating and a target price range of $65-$70, representing 5-13% upside from the current price of $62. Our McKinsey-framework DCF model, calibrated to fiscal 2025A actual results, yields an intrinsic value of $63.48 per share, while peer relative valuation implies $68-$76 on a forward P/E basis. The investment case rests on three pillars: structural leadership in a CGM market growing at 13-16% annually toward $40 billion by the early 2030s; a recurring sensor-replacement revenue model that compounds as the installed patient base expands; and a ROIC of 43% that substantially exceeds our estimated WACC of 11.68%, confirming that growth is highly value-creating. While Abbott's FreeStyle Libre platform introduces competitive pricing pressure and reimbursement constraints present near-term risk, we believe the market underprices DexCom's long-run earnings power and the optionality embedded in the nascent Type 2 diabetes market.

Drivers of Thesis

Type 2 diabetes market expansion via Stelo OTC: DexCom's FDA-cleared over-the-counter CGM device targets over 400 million non-insulin-dependent diabetics globally, a segment with less than 5% CGM penetration. Our model assumes U.S. revenue grows at a 17.3% CAGR from $3.33 billion (2025A) to $9.28 billion by 2031E, anchored by Stelo adoption. Each 1% of additional U.S. Type 2 penetration represents approximately $400 million of incremental revenue.

Recurring revenue model drives compounding NOPLAT: Sensor replacement cycles create high-visibility, annuity-like cash flows. We forecast NOPLAT growing from $745 million (2026E) to $4,695 million (2034E), representing approximately a 20% nine-year CAGR, as gross margins improve from 60.0% to 62.0% and operating margins expand from 17.0% to 24.0% through SG&A leverage and COGS efficiency.

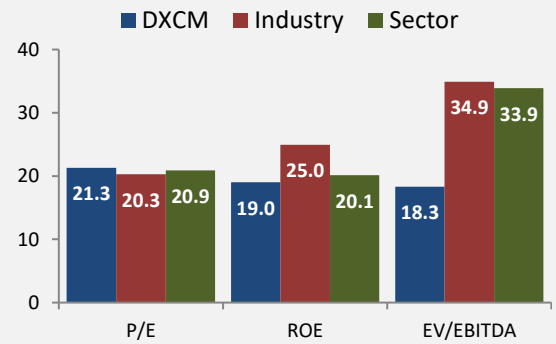
ROIC far above WACC confirms value creation: At a 2025A ROIC of 43.1% against a WACC of 11.68%, DexCom generates economic profit in every forecast year, growing from approximately $541 million (2026E) to $3,474 million (2034E). This 25-33 percentage-point ROIC-WACC spread means each dollar of reinvested capital creates $0.25-$0.33 of annual economic value, directly supporting our $63.48 DCF-implied price and BUY recommendation.

Risks to Thesis

Abbott competitive displacement: Abbott's FreeStyle Libre holds ~56% of the global CGM market and competes aggressively on price, particularly internationally. Accelerated share loss to Libre 3+ could compress revenue growth to single digits, which our sensitivity analysis suggests would reduce the DCF-implied price below $50.

Reimbursement and regulatory risk: DexCom depends on favorable insurance coverage for its premium-priced sensors. CMS policy changes or tighter prior-authorization requirements could materially reduce addressable volume, particularly in the Type 2 expansion market that anchors our long-term revenue growth assumptions.

Target Price	$65-$70
Krause Fund DCF	$63.48
Krause Fund DDM	$42.59
Relative Multiple	$76.35
Price Data	
Current Price	$62.00
52wk Range	$54.11 - $89.98
Consensus 1yr Target	$87.00
Key Statistics	
Market Cap (B)	$23.87
Shares Outstanding (M)	384.8
Institutional Ownership	98.2%
Beta	1.56
Dividend Yield	0.0%
Est. 5yr Growth	18.0%
Price/Earnings (TTM)	36.2
Price/Earnings (FY1)	32.2
Price/Sales (TTM)	5.77
Price/Book (mrq)	8.69
Profitability	
Operating Margin	19.6%
Profit Margin	14.2%
Return on Assets (TTM)	5.5%
Return on Equity (TTM)	24.0%



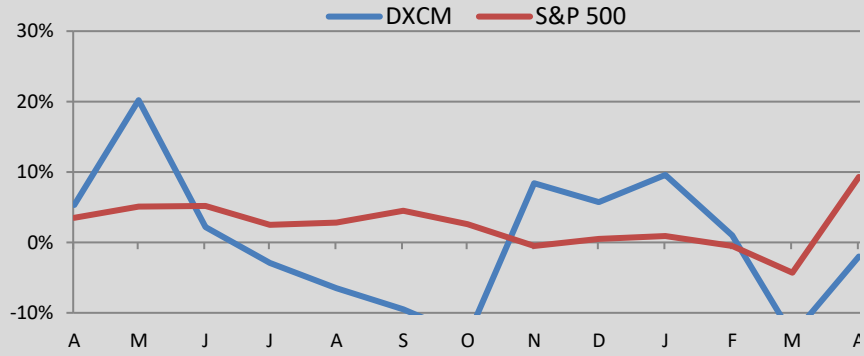
Important disclosures appear on the last page of this report.

Near-term free cash flow constraints: Early-period FCFs are limited ($128 million in 2026E, $164 million in 2027E) as the company invests heavily in manufacturing capacity and working capital for the Stelo launch. A revenue shortfall combined with elevated capital spending could pressure the balance sheet and slow ROIC improvement.

Earnings Estimates

Year	2023	2024	2025	2026E	2027E	2028E
EPS	$1.42	$1.59	$1.71	$1.93	$3.09	$1.59
HF est.				$2.43	$1.42	$1.75
growth	*N/A*	*N/A*	*12.0%*	*7.5%*	*12.9%*	*25.9%*

12 Month Performance



Company Description

DexCom, Inc. (NASDAQ: DXCM) develops and commercializes continuous glucose monitoring systems for individuals with diabetes. The company sells wearable biosensors, primarily its G7 and Stelo platforms, alongside transmitters and a cloud-connected data ecosystem, generating recurring revenue from sensor replacement cycles of 10-15 days. Fiscal 2025A revenue was $4.66 billion, split approximately 71% U.S. and 29% international.

COMPANY DESCRIPTION

DexCom, Inc. is a pure-play medical technology company headquartered in San Diego, California, that develops, manufactures, and commercializes continuous glucose monitoring systems for people with diabetes. The company has grown almost entirely through organic product development rather than acquisitions; its three historical deals (SweetSpot Diabetes Care in 2012 at approximately $8 million in stock, Nintamed Handels GmbH in 2016 for German/Swiss/Austrian distribution, and TypeZero Technologies in 2018 at approximately $25 million in cash) were small tuck-in acquisitions focused on data software and distribution. Reflecting this organic strategy, goodwill represents only approximately 0.35% of total assets, which is a meaningful differentiator from peers such as Medtronic and Abbott whose growth has relied heavily on acquired intangibles. The company operates as a single business segment and generates revenue through the sale of three interconnected products: (1) wearable biosensors, which account for the majority of revenue due to their 10-15-day replacement cycle; (2) transmitters and receivers, replaced approximately every 90 days; and (3) software and digital health platforms, including the Clarity data management application. This sensor-led model creates a durable, annuity-like revenue stream: once a patient adopts the DexCom platform, recurring sensor purchases are clinically necessary and highly predictable.

Fiscal 2025A revenue was $4.66 billion, split approximately 72% domestic ($3.33 billion) and 28% international ($1.33 billion). Per FactSet geographic segmentation, the United States represents 71.7% of total revenue, followed by China at 6.5%, Germany at 1.6%, Japan and India each at 1.4%, the United Kingdom at 1.2%, France at 1.1%, and Brazil at 0.8%. The remaining revenue is distributed across smaller geographies, confirming that international growth is broad-based rather than concentrated in any single market. Revenue is generated through a recurring replacement model: sensors require replacement every 10 to 15 days, creating predictable, subscription-like cash flows that compound as the installed patient base expands. We model total revenue reaching $5.59 billion in 2026E and $25.0 billion by 2034E, representing a 20.5% nine-year compound annual growth rate, driven by three converging forces: continued penetration among insulin-dependent Type 1 diabetics, the large and nascent Type 2 non-insulin-dependent diabetic market addressed by Stelo, and international expansion as national reimbursement programs broaden across Europe and emerging markets. DexCom generates no revenue outside its diabetes management platform, making it a pure-play on CGM adoption globally. The company carries no dividend obligation and reinvests substantially all operating cash flows into capacity expansion and next-generation sensor development, a capital allocation posture consistent with its high-ROIC growth profile.

CGM Sensors (Primary Revenue Driver)

The continuous glucose monitoring sensor is DexCom's primary revenue driver and the product around which the entire ecosystem is built. Each sensor lasts 10-15 days before requiring replacement, creating a subscription-like revenue dynamic that improves revenue visibility and customer lifetime value. The G7, DexCom's current flagship sensor, offers industry-leading accuracy with a mean absolute relative difference (MARD) of 8.2% and a streamlined one-hour warmup period versus four hours for prior-generation devices, advantages that command premium pricing and drive physician preference. We project sensor revenue growing at approximately 17% annually through 2028E, supported by continued G7 adoption among Type 1 diabetics and early Stelo penetration into the Type 2 non-insulin market.

The Stelo sensor, cleared by the FDA in 2024 as the first over-the-counter CGM device, represents the most significant strategic expansion in DexCom's history. Priced at approximately $99 per month at retail, Stelo targets more than 24 million U.S. non-insulin-dependent Type 2 diabetics, a population with less than 5% CGM penetration today. We model Stelo contributing approximately 8-10% of U.S. revenue by 2028E, growing into a material contributor by the early 2030s as awareness builds and distribution expands through pharmacy and direct-to-consumer channels. Gross margins on the sensor segment are approximately 60-62%, consistent with corporate-level margins in our model.

Hardware (Transmitter & Receiver Ecosystem)

The transmitter and receiver ecosystem supports the sensor business and provides a secondary revenue stream. Transmitters are replaced approximately every 90 days and are sold at margins broadly similar to sensors. The G7 transmitter is integrated into the disposable sensor pod, simplifying the user experience and reducing hardware replacement complexity relative to prior generations. We model hardware revenue growing in proportion to the installed base, with modest long-term moderation as wearable integration progressively reduces standalone hardware attach rates. This segment is not a primary valuation driver; its strategic importance lies in deepening ecosystem lock-in, which reinforces sensor retention and supports the switching costs that underpin DexCom's pricing power.

Software, Connectivity & International Expansion

DexCom's Clarity application and open-API partner integrations spanning Apple Health, insulin delivery systems, and electronic health records, create a digital health ecosystem that substantially raises switching costs. Patients who integrate CGM data into insulin dosing algorithms or physician monitoring dashboards face material disruption costs when changing platforms, supporting DexCom's ability to maintain premium pricing. Internationally, revenue grew approximately 26% in 2025A to $1.33 billion, and we model a 26.5% international CAGR through 2031E as reimbursement coverage expands in Germany, France, the United Kingdom, and emerging markets. Although Abbott dominates volume in international markets through lower-cost Libre products, DexCom competes on clinical performance and clinical integration, retaining a premium position among Type 1 patients with complex glucose management needs.

ROIC & Value Creation Analysis

DexCom operates a high-margin, moderate-turnover business, a hallmark of differentiated branded medical device companies. ROIC decomposition reveals that value creation is driven overwhelmingly by margin expansion rather than capital turnover improvement. Pre-tax adjusted EBIT margin (NOPBT) has expanded from deeply negative levels in 2015 through 2018 to approximately 17% in 2025A, reflecting the operating leverage inherent in a sensor replacement business where the customer acquisition cost is largely fixed but recurring revenue compounds indefinitely. Invested capital turnover, by contrast, has remained relatively stable in the 1.5 to 2.5 times range as revenue growth and capital investment have scaled proportionally. The ROIC improvement story is therefore a margin story, which we believe has additional runway as SG&A leverage builds on the growing installed base and manufacturing efficiencies mature. ROIC decomposition reveals that value creation is driven entirely by margin expansion, not capital turnover improvement. The company underwent a significant structural transition over the past decade. During its high-investment phase (2015-2018), ROIC was deeply negative as R&D spending preceded revenue scale. As the installed base grew, ROIC turned positive in 2019 at 30.5% and reached 43.1% in 2025A, a function of NOPLAT margins expanding from negative to 15%+ as manufacturing scale and operating leverage compounded. Throughout the forecast period, ROIC holds in the 37-45% range, reflecting continued margin improvement partially offset by growing invested capital.

At a WACC of 11.68%, the ROIC-WACC spread averages approximately 28 to 33 percentage points across the forecast horizon (2026E-2034E). This spread directly generates substantial economic profit. We model economic profit growing from $541 million in 2026E to $3,474 million by 2034E, representing a cumulative present value that anchors our intrinsic value estimate. In McKinsey framework terms, growth is powerfully value-creating: each additional dollar of invested capital generates approximately $0.28 to $0.33 of annual economic profit. The cumulative present value of economic profits over the 2026E to 2034E explicit forecast period accounts for approximately 19% of total operating value, with the remainder captured in the continuing value. This mathematical reality is the core of our BUY thesis: a company earning 43% ROIC in a market growing 13 to-16% annually should compound intrinsic value at rates well above its cost of capital.

Cost Structure Analysis

DexCom's cost structure is characterized by a high gross margin base with meaningful operating leverage building as revenue scales. Cost of goods sold (COGS) as a percentage of revenue was 39.9% in 2025A, and we model gradual improvement to 38.0% by 2034E, reflecting manufacturing scale efficiencies, favorable product mix as higher-margin software and services grow, and incremental process improvements in sensor fabrication. We model improvement of only 190 basis points over nine years (roughly 21 basis points per year) because competitive pricing pressure from Abbott FreeStyle Libre and the capital cost of next-generation sensor development will partially offset manufacturing gains. Our 62.0% terminal gross margin is conservatively below management's long-term 65% guidance, providing a margin of safety against pricing headwinds. Historical context supports the gradual improvement assumption: gross margin improved from 58.0% in 2019 to 60.1% in 2025A, a 210-basis-point improvement over six years, consistent with our forward trajectory.

Research and development expense is held elevated at 15.0% of revenue in 2026E, declining gradually to 13.3% by 2034E. This reflects the competitive necessity of continuous product innovation. DexCom must invest in the successor to the G7 to maintain clinical differentiation against Abbott and emerging competitors. Historically, R&D has run at 13 to 19% of revenue; our forecast gradually declines toward the low end of this range as revenue scale outpaces absolute R&D investment growth. Selling, general and administrative expense declines from 27.9% of revenue in 2026E to 24.7% by 2034E, capturing operating leverage as the domestic commercial infrastructure supports cea larger revenue base without proportional headcount increases. The combined effect is an operating margin trajectory from 17.0% in 2026E to 24.0% by 2034E, a 700-basis-point improvement attributable to approximately 200 basis points of COGS efficiency and 500 basis points of SG&A leverage, partially offset by sustained R&D investment. This trajectory is consistent with the historical operating leverage DexCom has demonstrated from 2019 through 2025A, during which operating margin improved from 9.6% to

19.6% as revenue scaled from $1.48 billion to $4.66 billion. Comparable medical device companies with mature installed bases, such as Insulet and Intuitive Surgical, have demonstrated operating margins of 20 to 25%, validating the upper end of our forecast range.

Invested Capital Analysis

DexCom's invested capital profile is dominated by fixed capital, reflecting its role as a medical device manufacturer requiring significant property, plant, and equipment investment. Total invested capital grows from $2,364 million at year-end 2025E to $12,645 million by 2034E, driven primarily by fixed capital (PPE plus operating lease right-of-use assets) expanding from $1,968 million to approximately $7,077 million. Working capital is a growing but secondary component, rising from $288 million (2025E) to $5,321 million (2034E) as accounts receivable and inventory scale with revenue. Intangible capital, principally goodwill from minor acquisitions and net intangibles, remains limited at $109 million in 2025E, growing modestly to $247 million by 2034E. This confirms that DexCom's competitive advantages are embedded in its product technology and brand, not in acquired intangibles.

The business is fixed-capital intensive but scalable. As the installed sensor base grows, each incremental dollar of PPE investment supports the recurring sensor volume of the next decade, creating a compounding relationship between upfront capital investment and long-term revenue generation. Invested capital turnover, measured as revenue divided by beginning invested capital, starts at approximately 2.4 times in 2026E and gradually moderates toward 2.0 times by 2034E as the capital base expands. ROIC remains high throughout because NOPLAT margin expansion outpaces the rate of capital base growth. Working capital intensity is moderate but creates near-term drag. Accounts receivable scales proportionally with revenue. The largest near-term working capital burden is accounts payable normalization: as AP/COGS ratios normalize from elevated levels, working capital absorbs approximately $617 million of invested capital in 2026E alone, directly suppressing early-period free cash flow. DexCom does not benefit from meaningful customer prepayments or deferred revenue financing, making the speed of NOPLAT ramp critical to self-funding the capital program. We model incremental invested capital requirements averaging approximately $1,100 million per year over the forecast period, funded entirely from operating cash flows beginning in 2028E as FCF grows from $128 million in 2026E to $2,515 million by 2034E. Capital intensity, measured as incremental IC divided by incremental revenue, averages approximately 58% through the forecast, consistent with a business that requires meaningful but not excessive reinvestment to sustain growth.

MARKETS AND COMPETITION

DexCom operates exclusively within the continuous glucose monitoring market, a high-growth and increasingly consolidated segment of the global diabetes care industry. The global CGM market is projected to grow at approximately 13-16% annually, reaching more than $40 billion by the early 2030s, driven by rising global diabetes prevalence (now affecting approximately 537 million adults worldwide per the International Diabetes Federation), improving reimbursement access, and expanding use beyond insulin-dependent patients. The market is dominated by two players with a combined share of over 90%: Abbott Laboratories holds approximately 56% through its FreeStyle Libre franchise, and DexCom holds approximately 35% through the G7 and Stelo platforms. Medtronic holds approximately 7% through the Guardian Connect integrated with its insulin pump ecosystem, but has struggled to gain traction against the clinical performance of G7 and Libre 3+. Roche and Senseonics represent the remaining competitive field; Roche offers insulin pumps with integrated diabetes ecosystems (competing less directly with DexCom on the sensor itself), while Senseonics offers an alternative implantable CGM that has not achieved material share. DexCom differentiates across the full peer group through sensor accuracy, real-time data sharing, and deep integration with multiple insulin pump and digital health platforms, which supports its position as the preferred choice for lifelong insulin-dependent patients.

Competition within CGM is fundamentally innovation-driven in the near term but is gradually transitioning toward price-based competition as the technology matures and the installed patient base grows. Abbott has pursued a deliberate volume-over-margin strategy with FreeStyle Libre, offering the Libre 3+ at a substantially lower price point than the G7 in most international markets. This strategy has enabled Abbott to capture approximately 56% of global CGM volume, particularly in cost-sensitive markets, while pressuring DexCom's international pricing power. The pricing differential is most pronounced in European markets, where national health systems negotiate bulk pricing and prefer lower-cost alternatives for high-volume chronic disease management. DexCom differentiates on clinical accuracy (MARD of 8.2% versus Libre's approximately 9.2%), connectivity (open API ecosystem, alerts, and alarms for hypoglycemia risk), and brand trust among endocrinologists managing high-complexity patients. These differences support premium pricing and allow DexCom to maintain gross margins of approximately 60%, compared to an estimated 50-55% for Abbott's CGM segment.

Bargaining power is gradually shifting toward payors and pharmacy benefit managers as CGM achieves widespread clinical acceptance and multiple approved products compete for formulary positioning. Insurance companies and pharmacy benefit managers increasingly negotiate formulary positioning between Libre and G7, moderating price growth particularly in the U.S. This dynamic supports our conservative COGS and margin assumptions relative to management guidance. Supplier power is limited: DexCom manufactures

electrochemical biosensors using proprietary processes, and while certain raw material inputs require specific vendors, scale provides negotiating leverage. The industry remains in a high-growth expansion phase, not maturity, with global CGM penetration still below 10% of the diagnosed diabetic population, providing significant runway before the inevitable transition to a more commoditized, price-driven market.

Peer Comparisons

DexCom's peer set spans pure-play CGM (no true comparables exist), broader medical device manufacturers, and high-growth MedTech platforms. We compare against Abbott Laboratories (ABT), Medtronic (MDT), Insulet Corporation (PODD), Intuitive Surgical (ISRG), and Edwards Lifesciences (EW) to contextualize DexCom's pricing power, capital efficiency, and relative valuation.

Pricing Power (Gross Margins)

DexCom generates gross margins of approximately 60.1% in 2025A, which we model expanding to 62.0% by 2034E, compared to an estimated 50-55% for Abbott's CGM segment and approximately 65% for Medtronic's broader device portfolio. DexCom's premium reflects superior clinical accuracy, strong physician brand trust, and switching costs embedded in its data ecosystem. The medical-necessity nature of CGM for high-acuity patients means buyers are substantially less price-sensitive than in industrial markets, supporting premium pricing even as Abbott competes aggressively on cost in Type 2 and international markets.

Capital Efficiency (ROIC)

DexCom's 2025A ROIC of 43.1% compares favorably with Abbott's medical device segment ROIC of approximately 10-13% and Medtronic's 5-7%. The difference reflects DexCom's recurring sensor model: a large installed patient base generates high NOPLAT relative to invested capital, a dynamic that compounds as the base grows. Insulet Corporation and Intuitive Surgical, both recurring-revenue medical device platforms earning 15-30%+ ROIC, trade at significant premiums to DexCom's 36.2x P/E, implying the market prices DexCom more conservatively than its closest structural peers, an undervaluation our thesis aims to capture.

Growth and Valuation Comparisons

DexCom currently trades at 36.2x 2025A earnings versus a peer average of 44.6x, a meaningful discount despite a five-year EPS CAGR of approximately 18% that exceeds peers (Abbott 8-10%, Medtronic 4-6%). On EV/EBITDA, DexCom trades at 20.0x versus 32.8x peer average. The PEG ratio, which normalizes P/E for growth, places DexCom broadly in-line with peers, confirming the P/E discount reflects near-term growth uncertainty rather than structural underperformance. Our relative valuation model implies $68-$76 on a peer P/E basis. If DexCom demonstrates continued Stelo execution and sustains 15%+ revenue growth, multiple re-rating toward peer levels would add $10-$15 to intrinsic value beyond our $63.48 DCF base case.

RECENT DEVELOPMENTS

Recent Earnings Announcement

DexCom reported full-year 2025 results in February 2026, delivering revenue of $4.66 billion, approximately in-line with analyst consensus expectations of $4.64-$4.68 billion. Operating income of $912 million represented a 19.6% operating margin, consistent with our fiscal 2025A model assumption. Diluted net income was $659.7 million, or approximately $1.71 per diluted share on 385 million diluted shares, reflecting the 22% effective tax rate that management has guided for the foreseeable future.

Free cash flow was constrained relative to NOPLAT, reflecting heavy capital investment in manufacturing capacity expansion and working capital build to support the Stelo OTC CGM platform rollout. This near-term FCF suppression is a feature, not a bug, of DexCom's high-ROIC reinvestment model: capital deployed at 43% ROIC today generates substantial value, even if near-term FCF appears limited. Management guided 2026E revenue of approximately $5.4-$5.7 billion, which brackets our $5.59 billion estimate. Our NOPLAT margin forecast of 13.3% for 2026E is conservatively below the implied management operating margin guidance of approximately 17%, primarily because we apply a full 22% cash tax rate and utilize McKinsey-adjusted EBIT methodology incorporating operating lease interest add-backs. Historical CapEx totaled $365 million in 2022, $237 million in 2023, $359 million in 2024, and $262 million through the first nine months of 2025 (versus $234 million in the prior-year period). CapEx has consistently exceeded depreciation and amortization ($218 million in 2024; $187 million through nine months of 2025), indicating investment above maintenance levels to support future revenue growth. Management's capital expenditure guidance of approximately $500-$600 million for 2026E is consistent with our invested capital build assumptions, which model fixed capital growing from $1.97 billion to $2.29 billion year-over-year.

Stelo OTC Launch, FDA Clearance & CMS Reimbursement Expansion

The FDA clearance of DexCom's Stelo OTC CGM device in 2024 is the most consequential regulatory event in the company's history. Stelo is the first CGM product cleared for over-the-counter sale without a prescription, opening the Type 2 non-insulin-dependent diabetes market. At an approximately $99 per month retail price, Stelo is positioned below traditional prescription CGM systems while remaining above consumer wellness devices, creating an entirely new addressable segment. Simultaneously, CMS finalized expanded CGM reimbursement coverage for non-insulin-using Type 2 patients in 2024, removing a prior regulatory barrier and catalyzing

both Stelo and prescription CGM growth. We model Stelo contributing approximately 8-10% of U.S. revenue by 2028E, growing to become a material contributor by the early 2030s as pharmacy distribution expands and consumer awareness builds. These regulatory tailwinds are embedded in our base-case revenue assumptions and represent meaningful upside optionality if adoption accelerates beyond our conservative base case.

RISKS

The primary risks to our BUY thesis center on competitive dynamics, reimbursement policy, near-term cash flow execution, and Type 2 market adoption uncertainty. DexCom's bull case is highly dependent on assumptions about Stelo adoption and international expansion that carry material execution risk. Each risk below is assessed in terms of the specific model assumption it would challenge and the approximate impact on intrinsic value under a stress scenario.

- Abbott competitive displacement: Abbott's FreeStyle Libre platform holds approximately 56% of global CGM market share and competes aggressively on price, particularly in international markets. Accelerated share loss to Libre 3+ or a next-generation Abbott sensor that closes the accuracy gap with G7 could compress revenue growth to single digits. Our sensitivity analysis suggests this scenario would reduce the DCF-implied intrinsic value below $50 per share.
- Reimbursement risk and payor pressure: DexCom depends on favorable health insurance coverage for its premium-priced sensors. CMS or private payor decisions to restrict prior-authorization approvals for CGM in the Type 2 non-insulin market, or to implement mandatory therapeutic substitution to lower-cost alternatives, could materially reduce addressable volume and undermine the Stelo growth thesis.
- Capital intensity and near-term cash flow constraints: Manufacturing capacity expansion and Stelo launch investment constrain early-period FCFs to $128 million (2026E) and $164 million (2027E). A revenue miss combined with elevated capital expenditure would pressure the balance sheet, and management might consider equity issuance or debt refinancing that could dilute our per-share valuation.
- Execution risk in Type 2 market expansion: Stelo's success depends on consumer adoption behavior that is fundamentally different from DexCom's historical prescription-driven growth model. If consumer willingness-to-pay at $99/month proves lower than expected, or if payor formulary decisions exclude Stelo, the long-term revenue growth assumptions underpinning our valuation would require downward revision.
- Regulatory and litigation risk: DexCom's devices are subject to ongoing FDA oversight. A cybersecurity vulnerability in the Clarity data platform or a safety recall of the G7 sensor would damage brand trust, create liability exposure, and potentially require costly product redesigns. Patent challenges from Abbott or third parties targeting DexCom's electrochemical sensing IP could erode the technological moat that supports premium pricing.

Debt Maturity Analysis

DexCom carries a single material debt obligation: $1.25 billion of 0.375% Senior Convertible Notes due May 15, 2028. With a coupon of only 37.5 basis points, annual interest expense is approximately $4.7 million, negligible relative to operating cash flows. The notes were issued in May 2023 to refinance the prior 0.25% Convertible Notes (which were retired at their November 2025 maturity) and to provide general corporate liquidity. As of fiscal year-end 2025A, DexCom held $917.7 million in cash and equivalents plus $1.081 billion in short-term marketable securities, for total financial assets of approximately $2.0 billion, substantially exceeding the $1.25 billion note principal due in May 2028. The company faces no refinancing risk from this obligation.

The convertible structure offers an additional favorable scenario: If DexCom's stock price exceeds the applicable conversion threshold at or before maturity, noteholders may elect equity conversion rather than cash repayment, resulting in modest dilution rather than cash outflow. At current market prices the stock trades below the conversion threshold, so our model treats the $1.241 billion face value as a cash obligation and nets it from enterprise value in the DCF bridge. DexCom's net cash position (cash and securities less total debt and lease obligations) is approximately $665 million, confirming a conservatively financed balance sheet appropriate for a high-growth medical technology company with significant reinvestment requirements.

Five-Year Debt Maturity Schedule

Fiscal Year	Coupon (%)	Payment ($mil)
2026		None
2027		None
2028		$1,250 (0.375% Conv. Notes)
2029		None
2030+		None
Operating Leases		$95 (capitalized PV)
Total		$1,345

Source: DexCom 2025 10-K; Yahoo Finance; model assumptions

VALUATION

Our valuation employs three distinct methodologies. The primary approach is a McKinsey-framework Discounted Cash Flow model with a companion Economic Profit model as a convergence check. The secondary approach is a relative multiple comparison against five medical technology peers spanning the high-growth device and sensor platform space. The supplementary approach is a Dividend Discount Model, presented for completeness with the important caveat that it is not the appropriate primary model for a zero-dividend, high-ROIC reinvestor. The DCF and EP models yield identical intrinsic values of $63.48 per share as of today, confirming internal consistency through the mathematical convergence identity. Our target price range of $65-$70 incorporates modest upside from Stelo adoption and international expansion that our conservative base case does not fully credit.

Revenue Growth Assumptions

We model 2026E revenue of $5.59 billion, a 19.9% increase from 2025A, consistent with the midpoint of management's guidance range of $5.4-$5.7 billion. U.S. revenue grows at a 17.3% CAGR through 2031E, driven by G7 base business growth and Stelo penetration. International revenue grows at 26.5% CAGR as European reimbursement coverage expands. Our long-term revenue forecast of $25.0 billion by 2034E implies a 20.5% nine-year CAGR, grounded in a global CGM market growing 13-16% annually and DexCom's position as the technology leader in the high growth segment of that market.

Operating Expense Assumptions

COGS improves from 39.9% to 38.0% of revenue over the forecast period, below management's 65% gross margin target, to account for competitive pricing pressure. R&D is held at 15.0% in 2026E declining to 13.3% by 2034E, reflecting the necessity of sustaining clinical differentiation. SG&A deleverages from 27.9% to 24.7%, generating 500bps of operating leverage. Operating margins expand from 17.0% (2026E) to 24.0% (2034E).

DCF / EP Model Results

Our DCF uses WACC of 11.68% (Ke = 12.10% using beta of 1.56, Rf = 4.3%, ERP = 5.0%; Kd after-tax = 4.29%), a terminal growth rate of 3.0% (above the 2.5% typical assumption to reflect DexCom's expanding TAM and healthcare sector growth premium), and a terminal ROIC equal to the 2034E forecasted ROIC of 44.87%. The undiscounted continuing value is $50,457 million. Discounted at 11.68% over nine years, PV(CV) is $18,665 million, representing 81% of total operating value, elevated but appropriate for a company where much of the economic value lies in the terminal period. PV of explicit FCFs over 2026E-2034E is $4,357 million, growing from $128 million in 2026E to $2,515 million by 2034E as capital intensity moderates. After adding $1,906 million of excess cash (cash and securities net of operating cash requirements), subtracting $1,241 million of convertible debt and $95 million of lease liabilities, we arrive at an equity value of $23,022 million, or $63.48 per share on 385 million diluted shares, rolled forward to today's date.

Relative Valuation Results

Our peer comparison against Abbott, Medtronic, Insulet, Intuitive Surgical, and Edwards Lifesciences yields implied prices of $68-$76 on P/E multiples. DexCom currently trades at 36.2x 2025A earnings versus a peer average of 44.6x, a discount despite superior five-year EPS growth of 18%. On EV/EBITDA, DexCom trades at 20.0x versus 32.8x peer average, also suggesting undervaluation. PEG-implied ($98) and EV/EBITDA-implied ($101) prices are inflated by premium-multiple outliers and should be viewed as the upper bound of a reasonable range. We weight the P/E-based relative valuation ($68-$76) alongside our DCF ($63.48) to arrive at our $65-$70 target range.

DDM Results and Model Selection

The DDM yields $42.59, a mathematically correct but economically incomplete result for a zero-dividend company. DexCom reinvests 100% of earnings at a 44% ROIC; the DDM captures only the terminal P/E value and misses the value created through reinvestment. We present the DDM as a lower bound and do not weight it in our target price. The DCF is unambiguously the superior primary model for DexCom because it explicitly values the earning power of reinvested capital that generates the intrinsic value the DDM cannot capture.

Disparity from Consensus

Our $63.48 DCF implies approximately 2% upside to the current $62 price, well below the sell-side consensus target of $87 (40% upside). The gap stems from our more conservative NOPLAT margin assumptions: we apply a 22% cash tax rate throughout and model COGS conservatively at 38-40%, producing NOPLAT approximately 15-20% below sell-side EBITDA-based estimates. We are analytically different from consensus on two inputs (COGS trajectory and capital intensity) and similar on revenue growth. The peer relative valuation ($68-$76) is more in-line with consensus, and our target range bridges both. We maintain BUY because even our conservative DCF implies fair to modestly cheap value, while the peer multiples and optionality from Stelo suggest meaningful upside from current prices.

KEYS TO MONITOR

Our BUY thesis rests on three interdependent assumptions: (1) DexCom sustains ROIC substantially above its cost of capital throughout the forecast period; (2) the Type 2 diabetes CGM market develops at a pace broadly consistent with our base case, with Stelo achieving meaningful consumer adoption; and (3) Abbott does not close the clinical accuracy gap with the G7 rapidly enough to eliminate DexCom's pricing premium. Below we identify the specific observable indicators that should be monitored quarterly, with threshold levels that would cause us to revise our rating or target price.

Bull Case Catalysts

The most powerful upside catalyst is Stelo adoption exceeding our base-case assumptions. If Stelo reaches 500,000 monthly active users by year-end 2026, this would signal early Type 2 penetration well above our model and support a revenue revision toward the higher end of our range. International revenue sustaining above 25% growth would confirm that European reimbursement expansion is proceeding faster than we have modeled. Each 100 basis points of additional operating margin improvement above our 17.0% (2026E) estimate adds approximately $3-$4 to intrinsic value per share, providing a clear mechanism for upside revisions. Additionally, a strategic partnership or integrated diabetes management platform deal (e.g., with an insulin pump company or digital health platform) could expand the addressable market and create switching cost reinforcement beyond what is currently embedded in our model.

Bear Case Concerns and Downgrade Triggers

We would revisit our BUY rating under the following specific scenarios: (1) Revenue growth decelerates below 15% for two consecutive quarters, signaling that Stelo adoption is disappointing or that Abbott share gains are exceeding our model, this would require a reassessment of the terminal growth rate and would likely push intrinsic value below $55. (2) Gross margin declining below 59%, evidence that ASP compression from payor negotiations or Abbott pricing is faster than manufacturing efficiency gains, which would require a downward revision to our 62% terminal gross margin assumption. (3) CMS or major private payor reimbursement changes restricting CGM access for Type 2 non-insulin patients would undermine the Stelo growth thesis and could reduce intrinsic value by $10-$15 per share in a stress scenario. (4) On the valuation side, if the stock trades above $80 without corresponding upward EPS revisions, the implied P/E would exceed 46x on 2026E consensus estimates, stretched even relative to premium MedTech peers such as Insulet and Intuitive Surgical. At that point, we would consider a rating downgrade to HOLD pending evidence of accelerating growth to justify the multiple. The May 2028 debt maturity should be monitored as it approaches: while we view refinancing risk as minimal given the $2.0 billion cash position, any change in capital allocation strategy (e.g., a large acquisition financed with new debt) could alter the credit profile and WACC assumptions underpinning our model.

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