Company Overview

DexCom, Inc. (DXCM) is the industry leader in continuous glucose monitoring (CGM). They are fundamentally changing how diabetes patients deal with their illness. The current standard of care for glucose monitoring is to use traditional “stick prick” devices. With those devices, patients are only able to gather one specific glucose reading at one specific time. However, DXCM has engineered a sensor that is able to monitor glucose level all day continuously that can be tracked on an iPhone or Android device. This software paints a much clearer picture of a diabetes patient’s glucose level and allows him or her to be much more proactive with managing their illness.

Stock Performance Highlights

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>52 week High</td>
<td>$152.14</td>
</tr>
<tr>
<td>52 week Low</td>
<td>$50.09</td>
</tr>
<tr>
<td>Beta Value</td>
<td>0.833</td>
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<tr>
<td>Average Daily Volume</td>
<td>1.16 M</td>
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Share Highlights

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
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</thead>
<tbody>
<tr>
<td>Market Capitalization</td>
<td>$12.53 B</td>
</tr>
<tr>
<td>Shares Outstanding</td>
<td>88.84 M</td>
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<tr>
<td>Book Value per share</td>
<td>$6.33</td>
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<tr>
<td>EPS (2019E)</td>
<td>$0.54</td>
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<tr>
<td>P/E Ratio</td>
<td>671.62</td>
</tr>
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</table>

Company Performance Highlights

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA</td>
<td>-0.62%</td>
</tr>
<tr>
<td>ROE</td>
<td>9.13%</td>
</tr>
<tr>
<td>Sales (2017A)</td>
<td>$718.5 M</td>
</tr>
</tbody>
</table>

Financial Ratios

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Ratio (Q3 2018)</td>
<td>4.71</td>
</tr>
<tr>
<td>Debt to Equity</td>
<td>98.2%</td>
</tr>
</tbody>
</table>

Changing the Game of Diabetes Care

Investment Positives

- **Rapid Increase in Diabetes Diagnoses:** The Center for Disease Control has concluded that over the last 20 years, diabetes diagnoses has more than tripled. They also estimate that this rate of growth will increase even more. This means that there will be more people in the US seeking diabetes care, which expands the market for quality diabetes care products.
- **Revolutionary Innovation:** DexCom has pioneered the field of Continuous Glucose Monitoring. Diabetes patients will now have the ability to keep constant track of their glucose levels on their smartphone. DexCom’s technology allows patients to gather much more data when compared to traditional diabetes “stick pricks” that gather one point of data each reading. With more data being collected, patients are able to more effectively manage their illness.

Investment Negatives

- **Uncertainty in Government Regulation:** Given that the Legislative branch of the US Government is going to be gridlocked until 2021, we do not see any major changes in the regulatory environment as it pertains to healthcare. Though, any further attempts to repeal the Affordable Care Act will cause less people to be covered on insurance plans.
- **Competition From a High Market-Cap Firm:** Abbott Laboratories has introduced their Libre product. Libre is a sensor that a patient sticks on their shoulder and scans it with a scanner that Abbott also sells. We believe this product is of lesser quality because DXCM’s sensor doesn’t require a scan and sends the sensor’s readings right to a smartphone.

One Year Stock Performance

(Figure 1: DXCM: Yahoo Finance)
Executive Summary

After carefully examining Dexcom’s historical financial data, projected growth rate, macroeconomic factors in the United States/European Union and current optics of the healthcare sector, we recommend a BUY rating for Dexcom Inc.

Given the favorable outlook of the United States’ economy, the Food and Drug Administration’s recent trend of faster drug approval times and Dexcom’s ground breaking continuous glucose monitoring technology paralleled with an excellent go-to-market strategy, our model reinforces a BUY rating.

Economic Outlook

Demographics
As the United States grows older, more people are enrolling in Medicare. With regards to Medicare, there are about 58 million people included in Medicare as of last year. That number is expected to increase at substantial rates to grow to about 87 million beneficiaries in 2040 and 115 million by 2090. Since Medicare typically has a lower reimbursement rate than private insurers, the industry will have to look to make s changes in order to make things more efficient. The aging population is more prone to chronic disease, injury, and an increased number of various other medical conditions.

As the projected percentage of the older adult population increases from 15% in 2016 to 23% in 2016, healthcare industry is likely to continue its growth in the future. Keep in mind that aging population is not only limited to the US. The Centers for Medicare & Medicaid Services estimates that people 65 years and older spend over 3.5x in healthcare expenditure compared to people under 25 years old.

The average projected annual growth of National Health Expenditure from 2016 to 2026 is expected to be 5.5%, whereas the average projected annual growth of Nominal GDP from 2016 to 2026 is expected to be 4.5%. US national health expenditure as percent of GDP from 1960 has increased, expecting to be 18.2% by the end of 2018. By 2026, it is expected to increase up to 19.7%. These statistics are major tailwinds for healthcare companies and suggest that the healthcare spending in the US will increase faster than the increasing rate of the GDP. This will lead to a continuation of growth in healthcare industry in the US.

Healthcare was identified as a top issue for voters in the 2018 midterm elections. Given that as of January, the US will have congressional gridlock, we do not foresee any significant legislation being passed as it pertains to healthcare. If the last eight years were any indication of bipartisan healthcare reform, we believe there is a very low chance of split chambers passing anything that could significantly impact the healthcare industry.

Quickly recapping major outcomes from last Tuesday’s election, there were three states that decided to expand Medicaid coverage (Idaho, Nebraska, and Utah). Kansas, Maine and Wisconsin all elected Democratic Governors who have come on record saying they are in favor of Medicaid expansion. It is not clear how this will impact our model yet.

U.S. Real Gross Domestic Product (Real GDP) and Health Expenditure
Unemployment
Currently in the US, unemployment is at a 10-year low of 3.9%. Historically, real unemployment is at a 17 year low. Regarding healthcare occupations, employment is expected to grow by 18% from 2016 to 2026. Additionally, it is expected to increase more than all other occupations, on average. If people are working, the chance of them being under an insurance plan is greater. This ultimately means that people will be buying (through insurance) more healthcare products.  

Providers are well positioned to deal with a potentially sluggish economy in the short run because managed care contracts are typically at least one year.

The Healthcare industry has seen a boom in revenues due to the low unemployment rate along with handsome benefits that employers are granting. With more and more people being employees, there has been a healthy growth in managed care enrollment plans.

Government Regulation
The Trump administration along with the rest of the Republican Party have made numerous attempts to dismantle the Affordable Care Act. However, they have been generally unsuccessful in the repealing process but have managed to chip away at key aspects of the ACA. Most notably, the individual mandate that required most US citizens to buy health insurance. The Congressional Budget Office has estimated that 4 million less people will have health insurance by 2019 which would be a headwind for revenue growth. However, beginning in January, Democrats will control the House and Republicans will control the Senate. This suggests that any additional Republican efforts to dismantle the ACA will be crushed.

For a longer-term view, Medicare is projected to become insolvent by 2026. With an aging population needing Medicare this could potentially give private healthcare companies an opportunity to fill in the gap where government cannot.  

The Consumer Price Index
Currently in the US, the Consumer Price Index (CPI) is 2.73% YoY. This indicator measures that changes in prices paid by consumers for goods and services. The CPI has nine components and medical care is included. Specifically, the medical care component includes medical care services and commodities. Medical services is the largest chunk of this measure, and it is split into two categories, professional and hospital services. Health insurance is also included in this but is not separately published. The other part, commodities includes prescription drug costs and medical equipment. We believe that medical inflation has reached a peak and any further assumptions of medical price increases can be viewed as unsustainable.

Although medical services are the largest portion of the CPI, we believe a large swing in CPI won’t hurt the healthcare sector too much. Since the demand for healthcare products is relatively inelastic, the average person will still consume healthcare services when needed. In the event of employers passing along increasing insurance costs to the consumer, then that will impede growth.

Capital Markets Outlook
Currently the stock market is on a record longest bull streak at nearly 10 years. There is some investor sentiment that the bull streak may end soon, given the recent volatility. We believe it is a good time to enter the healthcare market. The S&P Healthcare index has outperformed the general benchmark. We believe that along with favorable demographics, record high valuations and a constant innovation cycle, make it a very opportune time to invest in a high growth healthcare company with a strong presence in medical technology.

We remain bullish on most healthcare names going forward. Government regulation with the FDA does not appear to impede on any upcoming products. With low unemployment levels, more people are on insurance plans which makes them more inclined to seek medical treatment.

Industry Analysis

Industry Description
The healthcare equipment industry includes all companies that are engaged in manufacturing and distributing basic medical equipment and supplies. This excludes retail sales of drugs and medical supplies. For the purpose of this report, we will be focusing on specialty equipment.

Products: Specialty equipment includes medical technology aimed at solving a specific disease. These include but are not limited to, cardiovascular devices, diabetes care products and spinal devices.

Business Segments: The largest chunk of healthcare equipment is cardiovascular devices. This includes pumps for the heart and other related products. Following that is Irradiation devices, or devices that get sterilized through the use of gamma rays. The smallest, but very much growing, segment is diabetes devices. This includes insulin pumps, Continuous Glucose Monitoring (CGM) devices and traditional stick prick devices.
The chart above shows that about 81% of the supply goes toward servicing medical surgeries\(^{11}\), the performance of the segment will depend on revenues resulting from medical surgeries. This ties back into the aging population of the US and the amount of people under quality insurance plans.

New Initiatives: One of the more ground breaking innovations has been in Continuous Glucose Monitoring (CGM). The current standard of care in diabetes is to have a patient prick their finger with a glucose monitoring device. This allows the patient to get a single reading of their glucose levels. What CGM aims to do is develop technology (sensors) that are able to effectively get a continuous reading of a patient’s glucose levels throughout the day.

Industry Trends
Companies that are included in the Healthcare Equipment and Supplies industry have outperformed the S&P 500 recently. Until the month of March 2018, the two indexes moved about the same amount. However, the gap has been widened since April reaching up to around a 10% gap currently in September. Given the market growth cycle we are in as well as the accelerating revenue streams of the healthcare equipment segment, we remain bullish on the index and expect near-term growth and continual outperformance.

Revenue for US healthcare equipment and supplies is forecast to grow at an annual compounded rate of 4% between 2018 and 2022,\(^{12}\) based on changes in physical volume and unit prices. We view these estimates as conservative given the fact that there are no indicators to suggest that revenue growth will decelerate from where it was this year.

Last year Abiomed was among the top performers in the industry. After close examination, the most obvious reason for their performance was accelerating revenue growth. Over four years, AMBD went from $200 million in sales to $600 million in sales. We believe top line growth is one of, if not, the most important indicator of performance in this sector.\(^{13}\)

Markets and Competition:
Healthcare Equipment is a very competitive industry. Firms are faced with the task of engineering a superior medical device that will improve patient condition as well as bringing those devices to the market with a compelling go-to-market strategy. In addition, these firms must also deal with the constantly changing healthcare environment such as insurance reimbursement rates and Medicare coverage.

The major players in the industry are Medtronic PLC, Abbott Laboratories, Danaher Corporation, Becton Dickinson and Company, and Stryker Corporation.

Porter’s 5-Forces Analysis
Threat of New Entrants: (HIGH) Patents for medical devices will be a major tailwind for firms in this industry. If they are able to obtain a patent, then no one else will be able to manufacture any identical devices. However, patents do invite competition in the long-run. Patents usually provide the inventor with a 5-10 year grace period where they have monopoly output power.

Power of Suppliers: (HIGH) This industry typically favors the suppliers since the majority of its end market views these products as inelastic and therefore are not responsive (to a degree) to any price increase. The US also does not have many restrictions on what price firms may set.

Power of Buyers: (LOW) Buyers are somewhat limited as there may be few firms offering a specific product. Additionally, the nature of the complexity of medical issues may limit the patient to one or very few options.
Availability of Substitutes: (Moderate) Once a firm brings an innovative product to market, the nature of competition would suggest that other firms will attempt to copy. However, if firms can obtain intellectual property, the threat of substitutes will be severely diminished.

Competitive Rivalry: (Moderate-HIGH) The competitive outlook in the medical device subsector remains high. However, there are many different addressable markets within medical devices. For example, firms producing cardiovascular devices will not be able to expand into the diabetes market. This allows for fewer firms to compete for a specific market.

With these optics, we believe the best way for a firm to compete is to first develop a product with a niche market (i.e. diabetes sensors). Then to secure a patent to ensure a non-compete grace period. After that it is up to the firm to develop a compelling go-to-market strategy.

Competition
We believe the following firms are best positioned in this industry:

**DXCM (Dexcom)** is a leader in continuous glucose monitoring (CGM). Valuation for DXCM is high however, they have engineered a revolutionary ecosystem for patients suffering from diabetes. DXCM has replaced traditional stick prick devices that record one data point at one time with a monitor that can continually give patients access to their glucose levels in real time. They also have software that is compatible with iPhone and Android phones. The rate of adults with diabetes is growing at an extremely fast pace. According to the Center for Disease Control, over 3.3 million Americans already have diabetes with another 84.1 million having prediabetes. Given these numbers, DXCM will have an expanding total addressable market.

**ABMD (Abiomed)** sells proprietary products for temporary cardiovascular treatments. They have a robust pipeline of products that physicians use to assist the heart with blood flow. The American Heart Association has estimated that one in every seven deaths is linked to heart problems and remains the most deadly disease in America.

**BDX (Becton, Dickinson and Company)** is a worldwide medical technology company that manufactures diagnostic equipment that have a wide range of uses for many different professionals in the healthcare industry. BDX has two organic segments in BD Medical and BD Life Science and with the acquisition of C.R. Bard, they have added BD Interventional. BDX is a major player in the diagnostics industry and with their acquisition of C.R. Bard, they have positioned themselves to take major market share with accelerating revenue growth and margin expansion.

**PODD (Insulet Corporation)** develops, manufactures, and sells insulin delivery systems for people with insulin-dependent diabetes worldwide. The company offers Omnipod Insulin Management System (Omnipod System), which consists of an easy-to-use continuous insulin delivery system and a handheld wireless device. It also customizes the Omnipod System technology platform for the delivery of drugs over a specified interval of time.

Note that these firms do not compete head-to-head but are just the firms we see the most upside potential in.

Industry Leaders:
Based on the size of the market cap and revenue, BDX is the most leading company in the area, followed by ABMD, DXCM, and PODD.

- The top 3 market capitalization companies in this industry are Medtronic PLC (124.35B), Abbott Laboratories (122.24B) and Danaher Corporation (70.455B)

<table>
<thead>
<tr>
<th>Company Name</th>
<th>P/E(x)</th>
<th>EPS</th>
<th>Profit Margin</th>
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<tbody>
<tr>
<td>Medtronic plc</td>
<td>41.54</td>
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<td>Abbott Laboratories</td>
<td>142.76</td>
<td>0.52</td>
<td>3.13%</td>
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<tr>
<td>Danaher Corporation</td>
<td>27.74</td>
<td>3.77</td>
<td>13.84%</td>
</tr>
<tr>
<td>Becton, Dickinson and Company</td>
<td>104.31</td>
<td>2.44</td>
<td>5.24%</td>
</tr>
<tr>
<td>Stryker Corporation</td>
<td>59.94</td>
<td>2.83</td>
<td>8.28%</td>
</tr>
<tr>
<td>Baxter International</td>
<td>45.07</td>
<td>1.64</td>
<td>8.29%</td>
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<tr>
<td>Boston Scientific</td>
<td>94.65</td>
<td>0.38</td>
<td>5.48%</td>
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<td>Zimmer Biomet Holdings</td>
<td>14.97</td>
<td>8.27</td>
<td>21.32%</td>
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<tr>
<td>Edwards Lifesciences</td>
<td>46.42</td>
<td>3.05</td>
<td>18.50%</td>
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<tr>
<td>Intuitive Surgical</td>
<td>79.33</td>
<td>6.78</td>
<td>23.18%</td>
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<tr>
<td>Varian Medical Systems</td>
<td>69.02</td>
<td>1.54</td>
<td>4.96%</td>
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<tr>
<td>The Cooper Companies</td>
<td>100.65</td>
<td>2.58</td>
<td>5.23%</td>
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<tr>
<td>ResMed</td>
<td>51.16</td>
<td>2.19</td>
<td>13.49%</td>
</tr>
<tr>
<td>IDEXX Laboratories</td>
<td>70.39</td>
<td>3.45</td>
<td>14.50%</td>
</tr>
<tr>
<td>Align Technology</td>
<td>102.18</td>
<td>3.61</td>
<td>17.00%</td>
</tr>
<tr>
<td>ABIOMED</td>
<td>105.24</td>
<td>3.59</td>
<td>25.71%</td>
</tr>
<tr>
<td>DexCom, Inc.</td>
<td>1,066.11</td>
<td>0.14</td>
<td>(0.65%)</td>
</tr>
</tbody>
</table>

(Figure 9: NetAdvantage – Top Health Care Equipment & Supplies Sector Companies)

- The top 3 companies with the highest price per share are Intuitive Surgical at $503.87, Abiomed at $333.53 and The Cooper Companies at $255.81.
- The top 3 leaders in sales revenue are Medtronic with $30B, Abbott Laboratories with $29.85B and Danaher with Corporation with $19.29B
- Medtronic, Abbott and Danaher have nearly 50% of the market share.
Top 5 Highest Return Stocks (YTD): ABMD, ALGN, IDXX, ISRG, BSX, DXCM

<table>
<thead>
<tr>
<th>Company Name</th>
<th>% Price Change [YTD]</th>
<th>% Price Change [12 Month]</th>
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<tbody>
<tr>
<td>ABIOMED, Inc.</td>
<td>107.34%</td>
<td>147.66%</td>
</tr>
<tr>
<td>Align Technology, Inc.</td>
<td>68.68%</td>
<td>106.56%</td>
</tr>
<tr>
<td>IDEXX Laboratories, Inc.</td>
<td>57.38%</td>
<td>56.27%</td>
</tr>
<tr>
<td>Intuitive Surgical, Inc.</td>
<td>48.48%</td>
<td>55.92%</td>
</tr>
<tr>
<td>Boston Scientific Corporation</td>
<td>44.57%</td>
<td>24.49%</td>
</tr>
<tr>
<td>DexCom, Inc.</td>
<td>169.98%</td>
<td>95.4%</td>
</tr>
</tbody>
</table>

(Figure 10: Yahoo Finance - % Price Change(YTD), (12 month))

Catalysts for Growth and Change

One major catalyst for growth is that there is a steady demand for quality healthcare. Healthcare is unique in the sense that it is relatively immune to recessions. People will still need medical care in times of financial distress.

Another catalyst is that there is a favorable demographics. With an aging population there will be more of a need for new innovative medical devices. In the US, diseases like diabetes and heart problems are becoming increasingly popular.

Key Investment Positives and Negative

**Positives**
Most of the products in this sub industry have historically been recession-proof. The Food and Drug Administration has promised to speed up approval times for medical devices. There have been rumors of the possible repeal of the Medical Device Tax which would decrease the price of all medical devices sold domestically by about 2.5%. Most importantly, the aging population will increase demand for quality healthcare.

**Negatives**
Price pressure will be a headwind for medical device companies. Also, repealing the Individual Mandate will lead to less patients seeking care. This could cause revenue growth to decelerate.

Company Analysis

Overview
In the Healthcare subsector, Medical Devices and Technology, there are many investment opportunities that exhibit the potential for both long and short-term gains. We have seen over the last year that the gap between the S&P500 index and the Healthcare Equipment and Supplies index has widened in favor of Healthcare. However, in the current month of September, that gap has widened even more to 10% (16% for the S&P and 26% for healthcare Equipment and Supplies). Given the current state of the economy and the healthcare industry, we remain bullish on investment in Healthcare Equipment and Supplies. Our recommendation for investment zeros in on DexCom, Inc.

General Information

DexCom, Inc. (DXCM) is the industry leader in continuous glucose monitoring (CGM). They are fundamentally changing how diabetes patients deal with their illness. The current standard of care for glucose monitoring is to use traditional “stick prick” devices. With those devices, patients are only able to gather one specific glucose reading at one specific time. However, DXCM has engineered a sensor that is able to monitor glucose level all day continuously that can be tracked on an iPhone or Android device. This software paints a much clearer picture of a diabetes patient’s glucose level and allows him or her to be much more proactive with managing their illness. Abbott Laboratories has introduced a similar but inferior product Libre. We view DXCM’s G6 sensor to be more technologically advanced with greater application.

With regards to corporate strategy, DXCM aims to take their CGM technology and pair it with insulin delivery systems of their partners. These partners currently include Insulet (PODD: $81.56), Tandem (TNDM: $31.95), Eli Lilly (LLY: $112.40), and others. This will integrate DXCM’s technology with the technology of other insulin delivery systems. This strategy will provide a one-stop-shop approach to diabetes management that is more effective than the current standard of care and will give those suffering from diabetes more piece of mind when it comes to proactively managing their care.

DXCM is still very much in the growth phase of the business cycle. As of their most recent 10-Q, DXCM is showing operating income of $13.9 million This marks the first point of profitability in an SEC filing. Sales revenue has accelerated at 42% from this point last year. This can be attributed to the roll out of their new G6 sensor.

Financial Analysis

For the three months ending September 30th, 2018, DXCM revenue was $266.7 which, as mentioned previously, is up 44% from the previous year. On an EPS basis, DXCM has earnings of roughly $0.53 per share. Their gross margin is above 63% which is higher than comparable companies Abiomed (ABMD: $333.53), Tandem (TDMN: $31.95) and Quest Diagnostics (DGX: $95.36). DXCM has a manageable amount of debt on their balance sheet and quickly pass the eyeball test when it comes to leverage ratios. In 2017, DXCM has a debt/equity ratio of .8. Keeping in mind that DXCM is still in the growth phase of the business cycle, the relatively low amount of leverage used in their business can be viewed as a positive for investors. We do not believe DXCM has enough cash on hand to fund a full-fledged product rollout. Additional financing will most likely be needed, but that investment will ultimately increase top-line growth.
Medicare increases.

by bringing the price down or if the reimbursement rate from
able to expand their presence into the type two market, possibly
$3-$4 a day). However, there is a chance that DXCM will be
penetrated.

The market for type one diabetics is rapidly growing as diabetes
research done by Piper Jaffray, the CGM total addressable
market is around $80 billion. William Blair has estimated that
penetrated. This implies that there is room for more than one major player in the market.
DXCM is without question the leading firm in the CGM market
and appears to be making all the right moves to hold that spot.
DXCM has typically focused on intensive care type one
diabetics due to the relatively high cost of their product (about
S3-S4 a day). However, there is a chance that DXCM will be
able to expand their presence into the type two market, possibly
by bringing the price down or if the reimbursement rate from
Medicare increases.

### Products and Markets

DexCom’s newest product is the G6 sensor. They have paired
the sensor with a diabetes management platform that takes data
from the sensor and sends it to your smart phone or smart watch
every five minutes. The ability for a diabetes patient to be able
to keep constant track of their glucose levels without a single
stick prick is already shaking up the currently landscape of
diabetes care management. As of this quarter, DXCM has
acquired TypeZero, a privately held company that has a
proprietary algorithm for better blood glucose and insulin
management. With this acquisition, DXCM will have two of the
three segments (GCM, algorithm, insulin delivery). Once
DXCM can pair their platform with an insulin delivery system
(pump), they will have a totally integrated system for diabetes
management. Given that the FDA has been approving many
products, we see the possibility of these new products coming to
market is high.

### Production and Distribution

DXCM has shown improvements in their cost of goods sold. In
2017, DXCM had COGS = 29% of their sales. That number is
improved from 2016 which was 30.2% of sales. In terms of their
inventory, that has also improved. In 2017, DXCM had an
inventory turnover ratio of 4.7x, significantly improved from
2016 (3.9x). Their ROE has also improved. Last year DXCM
had a -11% ROE which is up almost 50% from 2016. The
typical area of weakness for DXCM has been their operating
efficiency. However, given the previous information, DXCM is
showing signs that operating efficiency is on the rise.

<table>
<thead>
<tr>
<th>Company Name</th>
<th>COGS</th>
<th>Inventory Turnover</th>
<th>ROE</th>
<th>Operating Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABMD</td>
<td>28.3%</td>
<td>2.14x</td>
<td>27.25%</td>
<td>27.54%</td>
</tr>
<tr>
<td>TNDM</td>
<td>70.2%</td>
<td>3.2x</td>
<td>-314.86%</td>
<td>-37.02%</td>
</tr>
<tr>
<td>DGX</td>
<td>61.3%</td>
<td>50.33x</td>
<td>17.70%</td>
<td>16.19%</td>
</tr>
<tr>
<td>DXCM</td>
<td>29.2%</td>
<td>4.65x</td>
<td>-1.29%</td>
<td>-2.90%</td>
</tr>
</tbody>
</table>

When it comes to distribution, DXCM has most of its revenue
coming from the U.S. type one market. BMO Capital markets
has projected that U.S. type one revenue will be $919 million.
This can be viewed as conservative given DXCM’s history of
blowing out sales guidance. Either way, the sales forecast
suggests a 36% increase in U.S. type one usage. Additionally,
DXCM has expanded into the international market. BMO has
sales estimates for 2018 international revenue being $174
million. Over the past five years DXCM international revenue
grown at a GAGR of 37.8%. Active international DXCM
CGM users are up 50% from last year. Given the low market
penetration rate for CGM, we believe we are still in the early
inings of CGM adoption.

### Competition

Given the outperformance of the Medical technology sector and
the expanding diabetes market, competition remains very high as
other big players try and break into the diabetes market. Most
notably Abbott Laboratories (ABT: $70.06) has introduced
Libre, a similar product to that of DXCM. However, Libre can
be view as inferior to the G6 because Libre is not compatible
with smart devices and requires patient intervention to get a
reading. Simply put, DXCM products send patients alerts and
notifications on their smart devices without having to manually
get a reading. As where the Libre requires a patient to scan their
sensor with an Abbott device. The G6 sensor is far more
technically advanced when compared to the libre.

It is our opinion that investors need not be concerned with Libre
even with its recent FDA approval. Data has shown that Libre
adoption has been more significant in the type two market than
in the type one. Currently, the G6 is in the G6 has a predictive low
soon alert, this is vitally important to those suffering from severe
hypoglycemia. Libre users will not be able to get this alert
because Libre is a passive sensor and passive sensors are not
sophisticated enough to handle such a task.
Lastly, it cannot be stated that Abbott’s recent success has come at DXCM’s expense. Abbott is exposing new patients to the CGM market and some of them may find that they prefer DXCM given its technological superiority. The CGM market is easily big enough to support more than one firm and with the continued innovation and an increasing number of patients with diabetes, CGM usage will continue to increase—good for both firms.

Research and Development
DXCM heavily invest in R&D. They have spent on average 27% of revenue on R&D from 2016-2017. We view this as a positive given the innovation cycle in Medical Technology. Management has prioritized reinvesting in R&D over driving meaningful operating leverage.

Government Regulation
The FDA can serve as both headwinds and tailwinds for DXCM. The wait for an approval for the 14-day sensor is ongoing but DXCM has had a very good history with the FDA and getting their products approved. However, the longer the FDA takes, the more time competitors have to develop similar products.

S.W.O.T. Analysis

Strengths:
- **Superior Technology**: DXCM was the first firm to introduce CGM. No one has been able to replicate the effectiveness of DXCM’s sensors.
- **Dedicated Management**: Kevin Sayer and other members created DXCM because they suffer from diabetes and look to change diabetes care
- **Expanding Diabetes Market**: The United States is seeing an unprecedented growth rate in diabetes diagnoses.

Weaknesses:
- **Operating Margin**: DXCM has been heavily investing in R&D. This has resulted in depressed margins.
- **Low Cash**: There is some concern that DXCM will not have enough cash on hand to fund a massive product rollout. They may need to go to either the equity or debt market for more cash.

Opportunities:
- **Expansion Overseas**: DXCM has been aggressively trying to expand their products into European countries.
- **Medicare/Medicaid Expansion**: New ballot measures have been passed to increase coverage. This means that in some states, there will be more people covered under insurance plans.

Threats:
- **Competition**: Abbott Laboratories has a similar product out in the CGM market. We believe that DXCM ultimately has a better product. Additionally, the market is big enough to have multiple winners.

Valuation Summary

Valuation Overview

After our close consideration of the macro-economy, the healthcare equipment industry, and the company-specific analysis, we have concluded a **BUY** rating for Dexcom Inc. After the use multiple valuation techniques including Discounted Cash Flow Model (DCF), the Economic Profit Model (EP), and P/E relative valuation, we have arrived at the target price of $175.

Revenue Forecast
Dexcom Inc. has two major product lines which include sensor products and durables products. The revenue growth for the fiscal year 2017 was 25.34% YoY. Sensors has the biggest portion of more than 70% of the total revenue. Durables products make up the rest. We have not taken the development grant & other revenue into our consideration because they have a low portion of less than 1% of the total revenue, thus would not impact our forecast.

**Sensors**
We foresee the diabetes sensors segment to continue its growth in the upcoming periods, as it has generated the most revenue among any other revenue stream. As Dexcom’s newest G6 sensor is far more technically advanced than that of any other competitors’, we believe that the product segment will continue to maintain a high growth.

Therefore, we have forecasted 40%, 25%, 20% sensors revenue growth for the years 2018, 2019, and 2020. Although we believe that this product segment will continue its growth, we anticipate the growth rate will gradually decline after 2020 as Dexcom slowly enters a steady-state that we determine as the year 2026.

**Durables**
Durables products include receivers and transmitters which make up around 30% of the total revenues. We have forecasted an identical durables revenue growth for the years 2018, 2019, and 2020, and after to that of the sensors segment. It is because these two product segments have shown a similar growth pattern historically, thus we foresee the future increase rate would go along with the sensors growth.

Weighted Average Cost of Capital (WACC)
Through significant analysis, we have calculated DexCom to have a WACC of 7.09%, using their capital structure of 97.07% equity and 2.93% debt. We anticipate Dexcom to maintain its capital structure, considering that we do not foresee the WACC change significantly until we reach our steady-state year of 2026.

Cost of Equity
Dexcom’s cost of equity is calculated using the Capital Asset Pricing Model (CAPM). To use the formula, we needed to find the risk-free rate, market risk premium, and the company specific beta. A 3.08% risk-free rate was used, which is the latest 10-year U.S. Treasury yield. We also used a 4.99% market risk premium. Historically, the geometric average market risk premium from 1928 to 2016 was 4.65%. However, we have expected it to be 4.99% considering the growth in 2017 and a positive outlook in 2018. The company specific beta was calculated by using the Bloomberg terminal. By averaging the
company’s raw monthly betas for the past 5 years, we have arrived at a beta of 0.833. As a result, incorporating all the factors in the CAPM formula, Dexcom’s cost of equity was calculated to be 7.24%.

Cost of Debt
For the cost of debt, we used Bloomberg’s New Issue Analytics function and took the default premium of an expected 10 year corporate bond.

WACC Weights
To get the weights for the calculation of WACC, we needed both the market value of equity and the market value of debt. Dexcom’s market value of equity was calculated by taking the most recent share price multiplied by shares outstanding, which resulted in $12,599.02 million. To get the market value of debt, we added the Long-term Debt (from the B/S) and the PV of operating leases, which totaled $379.63 million. Thus, the weight of equity and the weight of debt equaled 97.07% and 2.93%, respectively.

As a result, by adding the cost of equity multiplied by its weight and the after-tax cost of debt with its weight, Dexcom ended up with an approximate WACC of 7.09%.

Valuation Models
We believe that the Discounted Cash Flow Model (DCF) and the Economic Profit Model (EP) best reflects the intrinsic value of Dexcom Inc.’s stock price which is $175.

Discounted Cash Flow (DCF) & Economic Profit (EP)
The DCF model is constructed by forecasting the free cash flows and discounting them to the present value by the WACC. To find the free cash flows for each year, we took each year’s net operating profit less adjusted taxes (NOPLAT) and subtracted out the yearly change in invested capital (CAPEX). A continuing value (CV) formula is incorporated to the final year (2026) to calculate the cash flows into perpetuity.

The EP model is built by multiplying the invested capital of the previous year by the difference between return on invested capital (ROIC) and WACC on a yearly basis. A continuing value (CV) formula is also incorporated to the final year (2026) to calculate the cash flows into perpetuity.

For both the DCF and EP models, our forecast was to discount cash flows until the continuing value year 2026, with a CV growth rate of 5.00%. This rate is the close to what we assume Dexcom will reach its steady-state period.

Both our DCF and EP models state an adjusted intrinsic value of $176.85 per share as of the most current date (November 12, 2018). We believe that this price is an accurate estimate of the current stock value of Dexcom Inc.

Dividend Discount Model (DDM)
Dexcom has not currently paid a dividend to shareholders, and the management has no intention to do so in the foreseeable future. Thus, we do not believe our Dividend Discount Model (DDM) should be largely considered when evaluating our analysis.

To find our value under the DDM model, we multiplied our calculated P/E multiple and the EPS of the CV year (2026) which end up to a future cash flow. After discounting this into the present value, it gives us an intrinsic value of $82.99 per share. As mentioned above, we believe this should not be a representation of the intrinsic stock value of Dexcom Inc.

Relative P/S Valuation
Since DXCM is a growth company, we decided that a revenue multiple would be more suitable over an earnings multiple. In our model we took a handful of comparable companies (INGN, ABMD, PODD, TNDM, NUVA, WMGI, ALGN) and averaged their price-sales multiple out. The benchmark was .22x 2018 Sales and DXCM was trading at a discount of .14x 2018 Sales.

Sensitivity Analysis

CV SG&A Margin vs. CV R&D Margin
The purpose of our analysis of testing CV SG&A Margin to the CV R&D Margin is to acknowledge the importance of expense assumptions. Dexcom has a relatively high R&D expenses, in which we have assumed the CV R&D expense would be 14% of the total revenue of the CV year. When the R&D margin is increased, the price fluctuated more than changing the same amount of the SG&A margin.

Risk-Free Rate vs. Market Risk Premium
By testing the risk-free rate to the market risk premium, we can see how each factor impacts the WACC, which we use as a discount rate in our DCF and EP models. When the risk-free rate increases, the stock price slightly decreases. By analyzing the sensitivity table, we can see that the stock price has not been affected much, only showing a relatively small change around $2-3.

Pre-Tax Cost of Debt vs. Marginal Tax Rate
By analyzing the sensitivity of our stock price to the marginal tax rate and the pre-tax cost of debt, we can see that price sensitivity to the two variables is almost equal. Both the variables have not changed the stock price much, only showing a relatively small change around $2-3.

WACC vs. Beta
The sensitivity analysis of the stock price to WACC and Beta is to determine the impact of cost of capital variables. Beta is a measurement of a company-specific risk relative to the market, whereas a WACC is composed of equity and debt. From our analysis, changing the WACC makes the stock price more sensitive than changing beta. We assume the reason for this is because the WACC directly affects Dexcom’s DCF and EP valuation models. When the WACC increases or decrease by 20 basis points, the stock price shows a relatively huge volatility of $7-8 change.

WACC vs. CV Growth of NOPLAT
This analysis was done to measure the stock sensitivity on cost of capital to our CV cash flow growth assumption. The WACC
that we have retrieved as 7.09%, and the assumption of CV growth of NOPLAT was projected to be 5%. We concluded that changing WACC ($4-6 change) has similar price sensitivity compared to that of the change of our CV growth assumption ($4-6 change).

**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.
References:


   ThomsonOne

   ThomsonOne


### Revenue Decomposition

**DexCom Inc (NMS: DXCM)**

**Fiscal Years Ending Dec. 31**

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<tbody>
<tr>
<td><strong>Product revenue (CGM)</strong></td>
<td>396.77</td>
<td>567.80</td>
<td>711.70</td>
<td>996.38</td>
<td>1,245.48</td>
<td>1,494.57</td>
<td>1,748.65</td>
<td>2,010.94</td>
<td>2,312.59</td>
<td>2,543.84</td>
<td>2,747.35</td>
<td>2,884.72</td>
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<tr>
<td>y/y growth</td>
<td>43.11%</td>
<td>25.34%</td>
<td>40.00%</td>
<td>25.00%</td>
<td>20.00%</td>
<td>17.00%</td>
<td>15.00%</td>
<td>15.00%</td>
<td>10.00%</td>
<td>8.00%</td>
<td>5.00%</td>
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<tr>
<td><strong>Sensor revenue</strong></td>
<td>279.51</td>
<td>404.50</td>
<td>508.90</td>
<td>712.46</td>
<td>890.58</td>
<td>1,068.69</td>
<td>1,250.37</td>
<td>1,437.92</td>
<td>1,653.61</td>
<td>1,818.97</td>
<td>1,964.49</td>
<td>2,062.71</td>
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<td>y/y growth</td>
<td>44.72%</td>
<td>25.81%</td>
<td>40.00%</td>
<td>25.00%</td>
<td>20.00%</td>
<td>17.00%</td>
<td>15.00%</td>
<td>15.00%</td>
<td>10.00%</td>
<td>8.00%</td>
<td>5.00%</td>
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<tr>
<td><strong>Durable revenue</strong></td>
<td>117.26</td>
<td>163.30</td>
<td>202.80</td>
<td>283.92</td>
<td>354.90</td>
<td>425.88</td>
<td>498.28</td>
<td>573.02</td>
<td>658.97</td>
<td>724.87</td>
<td>782.86</td>
<td>822.01</td>
</tr>
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<td>y/y growth</td>
<td>39.26%</td>
<td>24.19%</td>
<td>40.00%</td>
<td>25.00%</td>
<td>20.00%</td>
<td>17.00%</td>
<td>15.00%</td>
<td>15.00%</td>
<td>10.00%</td>
<td>8.00%</td>
<td>5.00%</td>
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<tr>
<td><strong>Development grant &amp; other revenue</strong></td>
<td>5.20</td>
<td>5.60</td>
<td>6.80</td>
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<tr>
<td><strong>Total revenue</strong></td>
<td>401.97</td>
<td>573.40</td>
<td>718.50</td>
<td>996.38</td>
<td>1,245.48</td>
<td>1,494.57</td>
<td>1,748.65</td>
<td>2,010.94</td>
<td>2,312.59</td>
<td>2,543.84</td>
<td>2,747.35</td>
<td>2,884.72</td>
</tr>
<tr>
<td>y/y growth</td>
<td>42.65%</td>
<td>25.31%</td>
<td>38.68%</td>
<td>25.00%</td>
<td>20.00%</td>
<td>17.00%</td>
<td>15.00%</td>
<td>15.00%</td>
<td>10.00%</td>
<td>8.00%</td>
<td>5.00%</td>
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</table>
### Income Statement

**DexCom Inc (NMS: DXCM)**

**Fiscal Years Ending Dec. 31**

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<tbody>
<tr>
<td><strong>Product revenue</strong></td>
<td>396.77</td>
<td>567.80</td>
<td>711.70</td>
<td>996.38</td>
<td>1,245.48</td>
<td>1,494.57</td>
<td>1,748.65</td>
<td>2,010.94</td>
<td>2,312.59</td>
<td>2,543.84</td>
<td>2,747.35</td>
<td>2,884.72</td>
</tr>
<tr>
<td><strong>Development grant &amp; other revenue</strong></td>
<td>5.20</td>
<td>6.80</td>
<td>6.80</td>
<td>-</td>
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</tr>
<tr>
<td><strong>Total revenue</strong></td>
<td>401.97</td>
<td>573.40</td>
<td>718.50</td>
<td>996.38</td>
<td>1,245.48</td>
<td>1,494.57</td>
<td>1,748.65</td>
<td>2,010.94</td>
<td>2,312.59</td>
<td>2,543.84</td>
<td>2,747.35</td>
<td>2,884.72</td>
</tr>
<tr>
<td><strong>Cost of goods sold</strong></td>
<td>112.80</td>
<td>179.90</td>
<td>210.30</td>
<td>269.79</td>
<td>329.12</td>
<td>383.59</td>
<td>438.49</td>
<td>495.17</td>
<td>561.64</td>
<td>607.38</td>
<td>644.49</td>
<td>663.18</td>
</tr>
<tr>
<td><strong>Depreciation and amortization expense</strong></td>
<td>10.80</td>
<td>15.00</td>
<td>16.10</td>
<td>29.12</td>
<td>38.30</td>
<td>49.84</td>
<td>59.87</td>
<td>67.90</td>
<td>74.32</td>
<td>83.56</td>
<td>86.85</td>
<td>86.85</td>
</tr>
<tr>
<td><strong>Total cost of sales</strong></td>
<td>123.60</td>
<td>194.90</td>
<td>226.40</td>
<td>298.91</td>
<td>367.42</td>
<td>433.43</td>
<td>498.36</td>
<td>563.06</td>
<td>635.96</td>
<td>686.84</td>
<td>728.05</td>
<td>750.03</td>
</tr>
<tr>
<td><strong>Gross profit (loss)</strong></td>
<td>278.37</td>
<td>378.50</td>
<td>492.10</td>
<td>697.47</td>
<td>878.06</td>
<td>1,061.14</td>
<td>1,250.28</td>
<td>1,447.88</td>
<td>1,676.62</td>
<td>1,857.01</td>
<td>2,019.30</td>
<td>2,134.69</td>
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<tr>
<td><strong>Research &amp; development expense</strong></td>
<td>137.50</td>
<td>156.10</td>
<td>185.40</td>
<td>229.17</td>
<td>261.55</td>
<td>298.91</td>
<td>332.24</td>
<td>361.97</td>
<td>393.14</td>
<td>407.02</td>
<td>412.10</td>
<td>403.86</td>
</tr>
<tr>
<td><strong>Selling, general &amp; administrative expense</strong></td>
<td>198.00</td>
<td>286.20</td>
<td>349.20</td>
<td>448.37</td>
<td>560.46</td>
<td>657.61</td>
<td>769.40</td>
<td>925.03</td>
<td>1,040.66</td>
<td>1,144.73</td>
<td>1,236.31</td>
<td>1,269.28</td>
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<tr>
<td><strong>Total operating expenses</strong></td>
<td>335.50</td>
<td>442.30</td>
<td>534.60</td>
<td>677.54</td>
<td>822.01</td>
<td>956.52</td>
<td>1,101.65</td>
<td>1,287.00</td>
<td>1,433.80</td>
<td>1,551.74</td>
<td>1,648.41</td>
<td>1,673.14</td>
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<tr>
<td><strong>Operating income (loss)</strong></td>
<td>(57.10)</td>
<td>(63.90)</td>
<td>(42.50)</td>
<td>19.93</td>
<td>56.05</td>
<td>104.62</td>
<td>148.63</td>
<td>160.88</td>
<td>242.82</td>
<td>305.26</td>
<td>370.89</td>
<td>461.56</td>
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<td><strong>Interest income</strong></td>
<td>0.40</td>
<td>3.30</td>
<td>16.46</td>
<td>17.97</td>
<td>20.70</td>
<td>24.70</td>
<td>29.90</td>
<td>35.66</td>
<td>43.49</td>
<td>53.35</td>
<td>65.22</td>
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<td><strong>Interest expense</strong></td>
<td>0.40</td>
<td>0.70</td>
<td>12.80</td>
<td>9.55</td>
<td>12.66</td>
<td>15.49</td>
<td>18.61</td>
<td>21.75</td>
<td>24.59</td>
<td>27.57</td>
<td>30.69</td>
<td>33.95</td>
</tr>
<tr>
<td><strong>Income (loss) before income taxes</strong></td>
<td>(57.50)</td>
<td>(64.90)</td>
<td>(48.60)</td>
<td>26.83</td>
<td>61.36</td>
<td>109.83</td>
<td>154.73</td>
<td>169.03</td>
<td>253.89</td>
<td>321.18</td>
<td>393.54</td>
<td>492.83</td>
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<td><strong>Total current income taxes</strong></td>
<td>-</td>
<td>0.90</td>
<td>1.60</td>
<td>5.63</td>
<td>12.89</td>
<td>23.06</td>
<td>32.49</td>
<td>35.50</td>
<td>53.32</td>
<td>67.45</td>
<td>82.64</td>
<td>103.49</td>
</tr>
<tr>
<td><strong>Total deferred income taxes</strong></td>
<td>-</td>
<td>(0.20)</td>
<td>-</td>
<td>-</td>
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<tr>
<td><strong>Income tax expense (benefit)</strong></td>
<td>0.10</td>
<td>0.70</td>
<td>1.60</td>
<td>5.63</td>
<td>12.89</td>
<td>23.06</td>
<td>32.49</td>
<td>35.50</td>
<td>53.32</td>
<td>67.45</td>
<td>82.64</td>
<td>103.49</td>
</tr>
<tr>
<td><strong>Net income (loss)</strong></td>
<td>(57.60)</td>
<td>(65.60)</td>
<td>(50.20)</td>
<td>21.20</td>
<td>48.47</td>
<td>86.77</td>
<td>122.24</td>
<td>133.54</td>
<td>200.58</td>
<td>253.73</td>
<td>310.90</td>
<td>389.33</td>
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<tr>
<td><strong>Year end shares outstanding</strong></td>
<td>81.70</td>
<td>84.60</td>
<td>87.00</td>
<td>89.15</td>
<td>89.24</td>
<td>89.24</td>
<td>89.24</td>
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<td>89.24</td>
<td>89.24</td>
<td>89.24</td>
<td>89.24</td>
</tr>
<tr>
<td><strong>Net income (loss) per share - basic</strong></td>
<td>(0.72)</td>
<td>(0.78)</td>
<td>(0.58)</td>
<td>0.24</td>
<td>0.54</td>
<td>0.97</td>
<td>1.37</td>
<td>1.50</td>
<td>2.25</td>
<td>2.84</td>
<td>3.48</td>
<td>4.36</td>
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### Balance Sheet

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<tbody>
<tr>
<td><strong>Cash &amp; cash equivalents</strong></td>
<td>86.10</td>
<td>94.50</td>
<td>441.50</td>
<td>489.03</td>
<td>576.99</td>
<td>707.21</td>
<td>877.29</td>
<td>1,065.85</td>
<td>1,323.41</td>
<td>1,648.50</td>
<td>2,040.65</td>
<td>2,521.67</td>
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<td><strong>Short-term marketable securities, available for sale</strong></td>
<td>29.10</td>
<td>29.20</td>
<td>107.10</td>
<td>110.07</td>
<td>113.12</td>
<td>116.25</td>
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<td>127.78</td>
<td>126.18</td>
<td>129.67</td>
<td>133.27</td>
<td>136.96</td>
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<tr>
<td><strong>Accounts receivable, net</strong></td>
<td>74.10</td>
<td>101.70</td>
<td>134.30</td>
<td>199.28</td>
<td>224.19</td>
<td>269.02</td>
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<td>416.27</td>
<td>457.89</td>
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<td>519.25</td>
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<td><strong>Inventory</strong></td>
<td>35.20</td>
<td>45.40</td>
<td>45.20</td>
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<td>74.73</td>
<td>82.20</td>
<td>96.18</td>
<td>100.55</td>
<td>115.63</td>
<td>127.19</td>
<td>137.37</td>
<td>144.24</td>
</tr>
<tr>
<td><strong>Prepaid &amp; other current assets</strong></td>
<td>6.80</td>
<td>9.20</td>
<td>16.60</td>
<td>19.93</td>
<td>24.91</td>
<td>29.89</td>
<td>34.97</td>
<td>40.22</td>
<td>46.25</td>
<td>50.88</td>
<td>54.95</td>
<td>57.69</td>
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<tr>
<td><strong>Total current assets</strong></td>
<td>231.30</td>
<td>280.00</td>
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<td>878.08</td>
<td>1,013.93</td>
<td>1,204.58</td>
<td>1,442.66</td>
<td>1,691.37</td>
<td>2,027.74</td>
<td>2,414.14</td>
<td>2,860.75</td>
<td>3,379.80</td>
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<tr>
<td><strong>Property &amp; equipment, gross</strong></td>
<td>92.90</td>
<td>156.60</td>
<td>200.40</td>
<td>274.40</td>
<td>371.40</td>
<td>471.40</td>
<td>571.40</td>
<td>671.40</td>
<td>771.40</td>
<td>871.40</td>
<td>971.40</td>
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<td>Less: accumulated depreciation &amp; amortization</td>
<td>38.20</td>
<td>47.20</td>
<td>54.80</td>
<td>83.92</td>
<td>122.22</td>
<td>172.05</td>
<td>231.92</td>
<td>299.82</td>
<td>374.13</td>
<td>453.59</td>
<td>537.15</td>
<td>624.00</td>
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<tr>
<td><strong>Property &amp; equipment, net</strong></td>
<td>54.70</td>
<td>109.40</td>
<td>145.60</td>
<td>191.48</td>
<td>249.18</td>
<td>299.35</td>
<td>339.48</td>
<td>371.58</td>
<td>397.27</td>
<td>417.81</td>
<td>434.25</td>
<td>447.40</td>
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<td><strong>Intangible assets, net</strong></td>
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<tr>
<td><strong>Goodwill</strong></td>
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<td>12.10</td>
<td>12.10</td>
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<tr>
<td><strong>Other assets</strong></td>
<td>0.10</td>
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<td>1.70</td>
<td>2.70</td>
<td>2.70</td>
<td>2.70</td>
<td>2.70</td>
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<td>2.70</td>
<td>2.70</td>
<td>2.70</td>
<td>2.70</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>292.00</td>
<td>402.80</td>
<td>904.10</td>
<td>1,084.36</td>
<td>1,277.91</td>
<td>1,518.72</td>
<td>1,796.94</td>
<td>2,077.75</td>
<td>2,439.81</td>
<td>2,846.75</td>
<td>3,309.80</td>
<td>3,842.00</td>
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<tr>
<td><strong>Accounts payable &amp; accrued liabilities</strong></td>
<td>38.90</td>
<td>68.10</td>
<td>87.20</td>
<td>104.62</td>
<td>130.77</td>
<td>156.93</td>
<td>183.61</td>
<td>211.15</td>
<td>242.82</td>
<td>267.10</td>
<td>288.47</td>
<td>302.90</td>
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<td><strong>Accrued payroll &amp; related expenses</strong></td>
<td>24.90</td>
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<td>48.50</td>
<td>79.71</td>
<td>99.64</td>
<td>119.57</td>
<td>139.89</td>
<td>160.88</td>
<td>185.01</td>
<td>203.51</td>
<td>219.79</td>
<td>230.78</td>
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<td><strong>Current portion of long-term debt</strong></td>
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<td>-</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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</tr>
<tr>
<td><strong>Current portion of deferred revenue</strong></td>
<td>0.80</td>
<td>0.90</td>
<td>3.20</td>
<td>4.98</td>
<td>6.23</td>
<td>7.47</td>
<td>8.74</td>
<td>10.05</td>
<td>11.56</td>
<td>12.72</td>
<td>13.74</td>
<td>14.42</td>
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<td><strong>Total current liabilities</strong></td>
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<td>138.90</td>
<td>189.31</td>
<td>236.64</td>
<td>283.97</td>
<td>332.24</td>
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<td>439.39</td>
<td>483.33</td>
<td>522.00</td>
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<td><strong>Other liabilities</strong></td>
<td>3.90</td>
<td>16.60</td>
<td>18.20</td>
<td>18.20</td>
<td>18.20</td>
<td>18.20</td>
<td>18.20</td>
<td>19.20</td>
<td>20.20</td>
<td>21.20</td>
<td>22.20</td>
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<tr>
<td><strong>Long term debt</strong></td>
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<td>-</td>
<td>327.60</td>
<td>434.19</td>
<td>531.32</td>
<td>638.03</td>
<td>745.73</td>
<td>843.17</td>
<td>945.34</td>
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<td>1,164.10</td>
<td>1,278.87</td>
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<td><strong>Total liabilities</strong></td>
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<td>940.20</td>
<td>1,096.18</td>
<td>1,243.45</td>
<td>1,403.93</td>
<td>1,556.15</td>
<td>1,707.30</td>
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<tr>
<td><strong>Total common stock</strong></td>
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<td>905.80</td>
<td>1,093.80</td>
<td>1,095.86</td>
<td>1,096.48</td>
<td>1,096.48</td>
<td>1,096.48</td>
<td>1,096.48</td>
<td>1,096.48</td>
<td>1,096.48</td>
<td>1,096.48</td>
<td>1,096.48</td>
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<tr>
<td><strong>Accumulated other comprehensive income (loss)</strong></td>
<td>(0.30)</td>
<td>(1.00)</td>
<td>(2.80)</td>
<td>(2.60)</td>
<td>(2.60)</td>
<td>(2.60)</td>
<td>(2.60)</td>
<td>(2.60)</td>
<td>(2.60)</td>
<td>(2.60)</td>
<td>(2.60)</td>
<td>(2.60)</td>
</tr>
<tr>
<td><strong>Retained earnings (accumulated deficit)</strong></td>
<td>(555.40)</td>
<td>(621.00)</td>
<td>(671.80)</td>
<td>(650.60)</td>
<td>(602.13)</td>
<td>(515.36)</td>
<td>(393.12)</td>
<td>(259.59)</td>
<td>(59.01)</td>
<td>194.72</td>
<td>505.62</td>
<td>894.96</td>
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<td><strong>Total stockholders’ equity (deficit)</strong></td>
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<td>283.80</td>
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<td>442.66</td>
<td>491.75</td>
<td>578.52</td>
<td>700.76</td>
<td>834.30</td>
<td>1,035.87</td>
<td>1,290.61</td>
<td>1,602.51</td>
<td>1,992.84</td>
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<tr>
<td><strong>Total Liabilities and Stockholder’s Equity</strong></td>
<td>292.00</td>
<td>402.80</td>
<td>904.10</td>
<td>1,084.36</td>
<td>1,277.91</td>
<td>1,518.72</td>
<td>1,796.94</td>
<td>2,077.75</td>
<td>2,439.81</td>
<td>2,846.75</td>
<td>3,309.80</td>
<td>3,842.00</td>
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</table>
DexCom Inc (NMS: DXCM)

Cash Flow Statement

Fiscal Years Ending Dec. 31

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
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</thead>
<tbody>
<tr>
<td>Net income (loss)</td>
<td>(57.60)</td>
<td>(65.60)</td>
<td>(50.20)</td>
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<tr>
<td>Depreciation &amp; amortization</td>
<td>10.80</td>
<td>15.00</td>
<td>16.10</td>
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<tr>
<td>Share-based compensation</td>
<td>82.70</td>
<td>110.80</td>
<td>106.20</td>
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<tr>
<td>Non-cash interest expense</td>
<td>-</td>
<td>-</td>
<td>9.40</td>
</tr>
<tr>
<td>Non-cash research &amp; development charge through issuance of common stock</td>
<td>36.50</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Accretion &amp; amortization related to marketable securities, net</td>
<td>0.30</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Amortization of debt issuance costs</td>
<td>0.20</td>
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<td>-</td>
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<tr>
<td>Impairment of intangible assets</td>
<td>-</td>
<td>1.30</td>
<td>-</td>
</tr>
<tr>
<td>Other non-cash expenses</td>
<td>0.50</td>
<td>1.00</td>
<td>7.90</td>
</tr>
<tr>
<td>Changes in operating assets and liabilities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>(31.70)</td>
<td>(27.20)</td>
<td>(31.80)</td>
</tr>
<tr>
<td>Inventory</td>
<td>(19.20)</td>
<td>(9.80)</td>
<td>0.40</td>
</tr>
<tr>
<td>Prepaid &amp; other assets</td>
<td>(2.50)</td>
<td>(3.90)</td>
<td>(6.70)</td>
</tr>
<tr>
<td>Restricted cash</td>
<td>1.00</td>
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<tr>
<td>Accounts payable &amp; accrued liabilities</td>
<td>17.80</td>
<td>21.10</td>
<td>21.10</td>
</tr>
<tr>
<td>Accrued payroll &amp; related expenses</td>
<td>7.70</td>
<td>8.50</td>
<td>14.80</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>0.10</td>
<td>0.10</td>
<td>2.20</td>
</tr>
<tr>
<td>Deferred rent &amp; other liabilities</td>
<td>2.40</td>
<td>4.90</td>
<td>2.60</td>
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<tr>
<td>Net cash flows from operating activities</td>
<td>49.00</td>
<td>56.20</td>
<td>92.00</td>
</tr>
<tr>
<td>Purchase of available-for-sale marketable securities</td>
<td>(45.20)</td>
<td>(39.20)</td>
<td>(171.80)</td>
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<td>Proceeds from the maturity of available-for-sale marketable securities</td>
<td>27.50</td>
<td>38.70</td>
<td>93.40</td>
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<tr>
<td>Purchase of property &amp; equipment</td>
<td>(33.30)</td>
<td>(55.70)</td>
<td>(66.00)</td>
</tr>
<tr>
<td>Acquisitions, net of cash acquired</td>
<td>(0.50)</td>
<td>0.30</td>
<td>-</td>
</tr>
<tr>
<td>Net cash flows from investing activities</td>
<td>(51.50)</td>
<td>(55.90)</td>
<td>(144.40)</td>
</tr>
<tr>
<td>Net proceeds from issuance of common stock</td>
<td>19.10</td>
<td>10.40</td>
<td>10.10</td>
</tr>
<tr>
<td>Proceeds from issuance of convertible debt, net of issuance costs</td>
<td>-</td>
<td>-</td>
<td>389.00</td>
</tr>
<tr>
<td>Proceeds from short-term borrowings</td>
<td>-</td>
<td>-</td>
<td>75.00</td>
</tr>
<tr>
<td>Repayment of short-term borrowings</td>
<td>-</td>
<td>-</td>
<td>(75.00)</td>
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<tr>
<td>Repayment of long-term debt</td>
<td>(2.30)</td>
<td>(2.30)</td>
<td>-</td>
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<tr>
<td>Net cash flows from financing activities</td>
<td>16.80</td>
<td>8.10</td>
<td>399.10</td>
</tr>
<tr>
<td>Increase (decrease) in cash &amp; cash equivalents</td>
<td>14.30</td>
<td>8.40</td>
<td>347.00</td>
</tr>
<tr>
<td>Cash &amp; cash equivalents, beginning of period</td>
<td>71.80</td>
<td>86.10</td>
<td>94.50</td>
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<tr>
<td>Cash &amp; cash equivalents, ending of period</td>
<td>86.10</td>
<td>94.50</td>
<td>441.50</td>
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</table>
### DexCom Inc (NMS: DXCM)

**Cash Flow Statement**

**Fiscal Years Ending Dec. 31**

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net income (loss)</strong></td>
<td>21.20</td>
<td>48.47</td>
<td>86.77</td>
<td>122.24</td>
<td>133.54</td>
<td>200.58</td>
<td>253.73</td>
<td>310.90</td>
<td>389.33</td>
</tr>
<tr>
<td><strong>Add: Depreciation &amp; amortization</strong></td>
<td>29.12</td>
<td>38.30</td>
<td>49.84</td>
<td>59.87</td>
<td>67.90</td>
<td>74.32</td>
<td>79.45</td>
<td>83.56</td>
<td>86.85</td>
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<tr>
<td><strong>Share-based compensation</strong></td>
<td>51.36</td>
<td>30.82</td>
<td>27.73</td>
<td>18.49</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td><strong>Allowance for Doubtful Accounts</strong></td>
<td>1.14</td>
<td>0.44</td>
<td>0.78</td>
<td>0.80</td>
<td>0.83</td>
<td>0.95</td>
<td>0.73</td>
<td>0.64</td>
<td>0.43</td>
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<tr>
<td><strong>Changes in operating assets and liabilities:</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Increase in receivables</strong></td>
<td>(64.98)</td>
<td>(24.91)</td>
<td>(44.84)</td>
<td>(45.73)</td>
<td>(47.21)</td>
<td>(54.30)</td>
<td>(41.63)</td>
<td>(36.63)</td>
<td>(24.73)</td>
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<td><strong>Increase in inventories</strong></td>
<td>(14.58)</td>
<td>(14.95)</td>
<td>(7.47)</td>
<td>(13.97)</td>
<td>(4.37)</td>
<td>(15.08)</td>
<td>(11.56)</td>
<td>(10.18)</td>
<td>(6.87)</td>
</tr>
<tr>
<td><strong>Increase in prepaid expenses &amp; other assets</strong></td>
<td>(4.33)</td>
<td>(4.98)</td>
<td>(4.98)</td>
<td>(5.08)</td>
<td>(5.25)</td>
<td>(6.03)</td>
<td>(4.63)</td>
<td>(4.07)</td>
<td>(2.75)</td>
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<td><strong>Increase in accounts payable &amp; accrued liabilities</strong></td>
<td>17.42</td>
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<td>26.80</td>
<td>27.54</td>
<td>31.67</td>
<td>24.28</td>
<td>21.37</td>
<td>14.42</td>
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<td><strong>Increase (decrease) in deferred revenue</strong></td>
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<td>1.25</td>
<td>1.25</td>
<td>1.27</td>
<td>1.31</td>
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<td>1.02</td>
<td>0.69</td>
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<td><strong>Increase (decrease) in deferred rent &amp; other liabilities</strong></td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Net cash flows from operating activities</strong></td>
<td>69.34</td>
<td>120.52</td>
<td>155.15</td>
<td>184.88</td>
<td>195.26</td>
<td>257.74</td>
<td>320.04</td>
<td>382.89</td>
<td>468.37</td>
</tr>
<tr>
<td><strong>(Increase) decrease in short-term investments</strong></td>
<td>2.97</td>
<td>3.05</td>
<td>3.13</td>
<td>3.22</td>
<td>3.31</td>
<td>3.40</td>
<td>3.50</td>
<td>3.59</td>
<td>3.69</td>
</tr>
<tr>
<td><strong>Capital expenditures</strong></td>
<td>(33.78)</td>
<td>(45.60)</td>
<td>(38.06)</td>
<td>(28.03)</td>
<td>(20.00)</td>
<td>(13.58)</td>
<td>(8.45)</td>
<td>(4.34)</td>
<td>(1.05)</td>
</tr>
<tr>
<td><strong>Capitalization of intangible assets</strong></td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>(Increase) decrease in other assets</strong></td>
<td>(1.00)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Net cash flows from investing activities</strong></td>
<td>(31.81)</td>
<td>(42.56)</td>
<td>(34.93)</td>
<td>(24.81)</td>
<td>(16.70)</td>
<td>(10.18)</td>
<td>(4.95)</td>
<td>(0.75)</td>
<td>2.64</td>
</tr>
<tr>
<td><strong>Net Proceeds from issuance of common stock</strong></td>
<td>10.00</td>
<td>10.00</td>
<td>10.00</td>
<td>10.00</td>
<td>10.00</td>
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</tr>
<tr>
<td><strong>Payments of notes payable &amp; long-term debt</strong></td>
<td>-</td>
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<td>-</td>
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</tr>
<tr>
<td><strong>Payments of dividends</strong></td>
<td>-</td>
<td>-</td>
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<tr>
<td><strong>Proceeds from issuance of common stock</strong></td>
<td>-</td>
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</tr>
<tr>
<td><strong>Repurchases of common stock</strong></td>
<td>-</td>
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<td>-</td>
<td>-</td>
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</tr>
<tr>
<td><strong>Net cash flows from financing activities</strong></td>
<td>10.00</td>
<td>10.00</td>
<td>10.00</td>
<td>10.00</td>
<td>10.00</td>
<td>10.00</td>
<td>10.00</td>
<td>10.00</td>
<td>10.00</td>
</tr>
<tr>
<td><strong>Increase (decrease) in cash &amp; cash equivalents</strong></td>
<td>47.53</td>
<td>87.96</td>
<td>130.22</td>
<td>170.07</td>
<td>188.57</td>
<td>257.56</td>
<td>325.09</td>
<td>392.15</td>
<td>481.02</td>
</tr>
<tr>
<td><strong>Cash &amp; cash equivalents, beginning of period</strong></td>
<td>441.50</td>
<td>489.03</td>
<td>576.99</td>
<td>707.21</td>
<td>877.29</td>
<td>1,065.85</td>
<td>1,323.41</td>
<td>1,648.50</td>
<td>2,040.65</td>
</tr>
<tr>
<td><strong>Cash &amp; cash equivalents, ending of period</strong></td>
<td>489.03</td>
<td>576.99</td>
<td>707.21</td>
<td>877.29</td>
<td>1,065.85</td>
<td>1,323.41</td>
<td>1,648.50</td>
<td>2,040.65</td>
<td>2,521.67</td>
</tr>
</tbody>
</table>
## DexCom Inc (NMS: DXCM)
### Common Size Income Statement

### Fiscal Years Ending Dec. 31

<table>
<thead>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>Product revenue</strong></td>
<td>99%</td>
<td>99%</td>
<td>99%</td>
<td>100.00%</td>
<td>100.00%</td>
<td>100.00%</td>
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<td>100.00%</td>
<td>100.00%</td>
<td>100.00%</td>
<td>100.00%</td>
</tr>
<tr>
<td><strong>Development grant &amp; other revenue</strong></td>
<td>1.29%</td>
<td>0.98%</td>
<td>0.95%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Total revenue</strong></td>
<td>100.00%</td>
<td>100.00%</td>
<td>100.00%</td>
<td>100.00%</td>
<td>100.00%</td>
<td>100.00%</td>
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<td>100.00%</td>
<td>100.00%</td>
<td>100.00%</td>
</tr>
<tr>
<td><strong>Cost of goods sold</strong></td>
<td>28.06%</td>
<td>31.37%</td>
<td>29.27%</td>
<td>27.06%</td>
<td>25.67%</td>
<td>25.08%</td>
<td>24.62%</td>
<td>24.29%</td>
<td>23.88%</td>
<td>23.46%</td>
<td>22.99%</td>
<td>22.50%</td>
</tr>
<tr>
<td><strong>Depreciation and amortization expense</strong></td>
<td>2.69%</td>
<td>2.62%</td>
<td>2.24%</td>
<td>2.92%</td>
<td>3.07%</td>
<td>3.33%</td>
<td>3.42%</td>
<td>3.38%</td>
<td>3.21%</td>
<td>3.12%</td>
<td>3.04%</td>
<td>3.01%</td>
</tr>
<tr>
<td><strong>Total cost of sales</strong></td>
<td>30.75%</td>
<td>33.99%</td>
<td>31.51%</td>
<td>30.00%</td>
<td>29.50%</td>
<td>29.00%</td>
<td>28.50%</td>
<td>28.00%</td>
<td>27.50%</td>
<td>27.00%</td>
<td>26.50%</td>
<td>26.00%</td>
</tr>
<tr>
<td><strong>Gross profit (loss)</strong></td>
<td>69.25%</td>
<td>66.01%</td>
<td>68.49%</td>
<td>70.00%</td>
<td>70.50%</td>
<td>71.00%</td>
<td>71.50%</td>
<td>72.00%</td>
<td>72.50%</td>
<td>73.00%</td>
<td>73.50%</td>
<td>74.00%</td>
</tr>
<tr>
<td><strong>Research &amp; development expense</strong></td>
<td>34.21%</td>
<td>27.22%</td>
<td>25.80%</td>
<td>23.00%</td>
<td>21.00%</td>
<td>20.00%</td>
<td>19.00%</td>
<td>18.00%</td>
<td>17.00%</td>
<td>16.00%</td>
<td>15.00%</td>
<td>14.00%</td>
</tr>
<tr>
<td><strong>Selling, general &amp; administrative expense</strong></td>
<td>49.26%</td>
<td>49.91%</td>
<td>48.60%</td>
<td>45.00%</td>
<td>45.00%</td>
<td>44.00%</td>
<td>44.00%</td>
<td>46.00%</td>
<td>45.00%</td>
<td>45.00%</td>
<td>45.00%</td>
<td>44.00%</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>83.46%</td>
<td>77.14%</td>
<td>74.41%</td>
<td>68.00%</td>
<td>66.00%</td>
<td>64.00%</td>
<td>63.00%</td>
<td>64.00%</td>
<td>62.00%</td>
<td>61.00%</td>
<td>60.00%</td>
<td>58.00%</td>
</tr>
<tr>
<td><strong>Operating margin (loss)</strong></td>
<td>-14.21%</td>
<td>-11.14%</td>
<td>-5.92%</td>
<td>2.00%</td>
<td>4.50%</td>
<td>7.00%</td>
<td>8.50%</td>
<td>8.00%</td>
<td>10.50%</td>
<td>12.00%</td>
<td>13.50%</td>
<td>16.00%</td>
</tr>
<tr>
<td><strong>Other income</strong></td>
<td>0.00%</td>
<td>-0.12%</td>
<td>0.47%</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Interest income</strong></td>
<td>0.00%</td>
<td>0.07%</td>
<td>0.46%</td>
<td>1.65%</td>
<td>1.44%</td>
<td>1.39%</td>
<td>1.41%</td>
<td>1.49%</td>
<td>1.54%</td>
<td>1.71%</td>
<td>1.94%</td>
<td>2.26%</td>
</tr>
<tr>
<td><strong>Interest expense</strong></td>
<td>0.10%</td>
<td>0.12%</td>
<td>1.78%</td>
<td>0.96%</td>
<td>1.02%</td>
<td>1.04%</td>
<td>1.06%</td>
<td>1.08%</td>
<td>1.06%</td>
<td>1.08%</td>
<td>1.12%</td>
<td>1.18%</td>
</tr>
<tr>
<td><strong>Income (loss) before income taxes</strong></td>
<td>-14.30%</td>
<td>-11.32%</td>
<td>-6.76%</td>
<td>2.69%</td>
<td>4.93%</td>
<td>7.35%</td>
<td>8.85%</td>
<td>8.41%</td>
<td>10.98%</td>
<td>12.63%</td>
<td>14.32%</td>
<td>17.08%</td>
</tr>
<tr>
<td><strong>Total current income taxes</strong></td>
<td>0.00%</td>
<td>0.16%</td>
<td>0.22%</td>
<td>0.57%</td>
<td>1.03%</td>
<td>1.54%</td>
<td>1.86%</td>
<td>1.77%</td>
<td>2.31%</td>
<td>2.65%</td>
<td>3.01%</td>
<td>3.59%</td>
</tr>
<tr>
<td><strong>Total deferred income taxes</strong></td>
<td>0.00%</td>
<td>-0.03%</td>
<td>0.00%</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Income tax expense (benefit)</strong></td>
<td>0.02%</td>
<td>0.12%</td>
<td>0.22%</td>
<td>0.57%</td>
<td>1.03%</td>
<td>1.54%</td>
<td>1.86%</td>
<td>1.77%</td>
<td>2.31%</td>
<td>2.65%</td>
<td>3.01%</td>
<td>3.59%</td>
</tr>
<tr>
<td><strong>Net income (loss)</strong></td>
<td>-14.33%</td>
<td>-11.44%</td>
<td>-6.99%</td>
<td>2.13%</td>
<td>3.89%</td>
<td>5.81%</td>
<td>6.99%</td>
<td>6.64%</td>
<td>8.67%</td>
<td>9.97%</td>
<td>11.32%</td>
<td>13.50%</td>
</tr>
</tbody>
</table>
### DexCom Inc (NMS: DXCM)

**Common Size Balance Sheet**

<table>
<thead>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash &amp; cash equivalents</strong></td>
<td>21.42%</td>
<td>16.48%</td>
<td>61.45%</td>
<td>49.08%</td>
<td>46.33%</td>
<td>47.32%</td>
<td>50.17%</td>
<td>53.00%</td>
<td>57.23%</td>
<td>64.80%</td>
<td>74.28%</td>
<td>87.41%</td>
</tr>
<tr>
<td><strong>Short-term marketable securities, available for sale</strong></td>
<td>7.24%</td>
<td>5.09%</td>
<td>14.91%</td>
<td>11.05%</td>
<td>9.08%</td>
<td>7.78%</td>
<td>6.83%</td>
<td>6.11%</td>
<td>5.46%</td>
<td>5.10%</td>
<td>4.85%</td>
<td>4.75%</td>
</tr>
<tr>
<td><strong>Accounts receivable, net</strong></td>
<td>18.43%</td>
<td>17.74%</td>
<td>18.69%</td>
<td>20.00%</td>
<td>18.00%</td>
<td>18.00%</td>
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<td>18.00%</td>
<td>18.00%</td>
<td>18.00%</td>
<td>18.00%</td>
</tr>
<tr>
<td><strong>Inventory</strong></td>
<td>8.76%</td>
<td>7.92%</td>
<td>6.29%</td>
<td>6.00%</td>
<td>6.00%</td>
<td>5.50%</td>
<td>5.50%</td>
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<td>5.00%</td>
<td>5.00%</td>
<td>5.00%</td>
</tr>
<tr>
<td><strong>Prepaid &amp; other current assets</strong></td>
<td>1.69%</td>
<td>1.60%</td>
<td>2.31%</td>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
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<td>2.00%</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>57.54%</td>
<td>48.83%</td>
<td>103.65%</td>
<td>88.13%</td>
<td>81.41%</td>
<td>80.60%</td>
<td>82.50%</td>
<td>84.11%</td>
<td>87.68%</td>
<td>94.90%</td>
<td>104.13%</td>
<td>117.16%</td>
</tr>
<tr>
<td><strong>Property &amp; equipment, gross</strong></td>
<td>23.11%</td>
<td>27.31%</td>
<td>27.89%</td>
<td>27.64%</td>
<td>29.82%</td>
<td>31.54%</td>
<td>32.68%</td>
<td>33.39%</td>
<td>33.36%</td>
<td>34.26%</td>
<td>35.36%</td>
<td>37.14%</td>
</tr>
<tr>
<td>Less: accumulated depreciation &amp; amortization</td>
<td>9.50%</td>
<td>8.23%</td>
<td>7.63%</td>
<td>8.42%</td>
<td>9.81%</td>
<td>11.51%</td>
<td>13.26%</td>
<td>14.91%</td>
<td>16.18%</td>
<td>17.83%</td>
<td>19.55%</td>
<td>21.63%</td>
</tr>
<tr>
<td><strong>Property &amp; equipment, net</strong></td>
<td>13.61%</td>
<td>19.08%</td>
<td>20.26%</td>
<td>19.22%</td>
<td>20.01%</td>
<td>20.03%</td>
<td>19.41%</td>
<td>18.48%</td>
<td>17.18%</td>
<td>16.42%</td>
<td>15.81%</td>
<td>15.51%</td>
</tr>
<tr>
<td><strong>Intangible assets, net</strong></td>
<td>0.55%</td>
<td>0.03%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
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</tr>
<tr>
<td><strong>Goodwill</strong></td>
<td>0.92%</td>
<td>1.97%</td>
<td>1.68%</td>
<td>1.21%</td>
<td>0.97%</td>
<td>0.81%</td>
<td>0.69%</td>
<td>0.60%</td>
<td>0.52%</td>
<td>0.48%</td>
<td>0.44%</td>
<td>0.42%</td>
</tr>
<tr>
<td><strong>Other assets</strong></td>
<td>0.02%</td>
<td>0.33%</td>
<td>0.24%</td>
<td>0.27%</td>
<td>0.22%</td>
<td>0.18%</td>
<td>0.15%</td>
<td>0.13%</td>
<td>0.12%</td>
<td>0.11%</td>
<td>0.10%</td>
<td>0.09%</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>72.64%</td>
<td>70.25%</td>
<td>125.83%</td>
<td>108.83%</td>
<td>102.60%</td>
<td>101.62%</td>
<td>102.76%</td>
<td>103.32%</td>
<td>105.50%</td>
<td>111.91%</td>
<td>120.47%</td>
<td>133.18%</td>
</tr>
<tr>
<td><strong>Accounts payable &amp; accrued liabilities</strong></td>
<td>9.68%</td>
<td>11.88%</td>
<td>12.14%</td>
<td>10.50%</td>
<td>10.50%</td>
<td>10.50%</td>
<td>10.50%</td>
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<td>10.50%</td>
<td>10.50%</td>
</tr>
<tr>
<td><strong>Accrued payroll &amp; related expenses</strong></td>
<td>6.19%</td>
<td>5.82%</td>
<td>6.75%</td>
<td>8.00%</td>
<td>8.00%</td>
<td>8.00%</td>
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<td>8.00%</td>
</tr>
<tr>
<td><strong>Current portion of long-term debt</strong></td>
<td>0.57%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
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<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Current portion of deferred revenue</strong></td>
<td>0.20%</td>
<td>0.16%</td>
<td>0.45%</td>
<td>0.50%</td>
<td>0.50%</td>
<td>0.50%</td>
<td>0.50%</td>
<td>0.50%</td>
<td>0.50%</td>
<td>0.50%</td>
<td>0.50%</td>
<td>0.50%</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>16.64%</td>
<td>17.86%</td>
<td>19.33%</td>
<td>19.00%</td>
<td>19.00%</td>
<td>19.00%</td>
<td>19.00%</td>
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<td>19.00%</td>
<td>19.00%</td>
<td>19.00%</td>
<td>19.00%</td>
</tr>
<tr>
<td><strong>Other liabilities</strong></td>
<td>0.97%</td>
<td>2.90%</td>
<td>2.53%</td>
<td>1.83%</td>
<td>1.46%</td>
<td>1.22%</td>
<td>1.04%</td>
<td>0.91%</td>
<td>0.83%</td>
<td>0.79%</td>
<td>0.77%</td>
<td>0.77%</td>
</tr>
<tr>
<td><strong>Long term debt</strong></td>
<td>0.00%</td>
<td>0.00%</td>
<td>45.59%</td>
<td>43.58%</td>
<td>42.66%</td>
<td>42.69%</td>
<td>42.65%</td>
<td>41.93%</td>
<td>40.88%</td>
<td>41.38%</td>
<td>42.37%</td>
<td>44.33%</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>17.61%</td>
<td>20.75%</td>
<td>67.46%</td>
<td>64.40%</td>
<td>63.12%</td>
<td>62.91%</td>
<td>62.69%</td>
<td>61.83%</td>
<td>60.71%</td>
<td>61.17%</td>
<td>62.14%</td>
<td>64.10%</td>
</tr>
<tr>
<td><strong>Common stock</strong></td>
<td>193.27%</td>
<td>157.97%</td>
<td>152.23%</td>
<td>109.98%</td>
<td>88.04%</td>
<td>73.36%</td>
<td>62.70%</td>
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<td>Accumulated other comprehensive income (loss)</td>
<td>-0.07%</td>
<td>-0.17%</td>
<td>-0.36%</td>
<td>-0.26%</td>
<td>-0.21%</td>
<td>-0.17%</td>
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<td>Retained earnings (accumulated deficit)</td>
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<td>-108.30%</td>
<td>-93.50%</td>
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<td><strong>After-tax Cost of Debt</strong></td>
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### EBITA:

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**EBITA:**

(56.59) (47.71) (25.41) 50.37 96.06 156.53 210.85 231.34 319.88 387.60 457.46 551.50

### Less: Adjusted Taxes:

- Provision for Income Taxes: 0.10 0.70 1.60 5.63 12.89 23.06 32.49 35.50 53.32 67.45 82.64 103.49
- *Implied* Interest on Implied Lease Interest: 0.19 0.38 0.35 0.28 0.36 0.43 0.49 0.54 0.58 0.61 0.63 0.65
- *Tax Shield on Interest Expense:* 0.14 0.25 4.48 2.01 2.66 3.25 3.91 4.57 5.16 5.79 6.45 7.15
- *Tax on Interest Income:* 0.14 1.16 3.46 3.77 4.35 5.19 6.28 7.49 9.13 11.20 13.70
- *Tax on Other Non-Operating Income:* - - - - - - - - - - - -

**Total Adjusted Taxes:**

0.33 0.73 2.48 (1.17) (0.75) (0.66) (0.79) (1.17) (1.75) (2.74) (4.13) (5.92)

### Plus: Changes in Deferred Taxes:

- (0.20) 0.20 - - - - - -

**NOPLAT = EBITA - Adjusted Taxes + Changes in Deferred Taxes:**

(56.52) (46.64) (27.69) 51.54 96.82 157.19 211.64 232.51 321.63 390.34 461.58 557.41

### Invested Capital

#### Operating Current Assets (CA):

- Normal Cash: 66.24 94.50 118.41 164.20 205.25 246.31 288.18 331.40 381.11 419.23 452.76 475.40
- Accounts Receivable: 74.10 101.70 134.30 199.28 224.19 269.02 314.76 361.97 416.27 457.89 494.52 519.25
- Inventory: 35.20 45.40 45.20 59.78 74.73 82.20 96.18 100.55 115.63 127.19 137.37 144.24
- Prepaid Expenses & Other current assets: 6.80 9.20 16.60 19.93 24.91 29.89 34.97 40.22 46.25 50.84 54.95 57.69

**Total operating current assets:**

182.34 250.80 314.51 443.19 529.08 627.42 734.08 834.14 959.26 1,055.19 1,139.60 1,198.58

#### Non Interest-Bearing Current Liabilities (CL):

- Accounts Payable & Accrued Liabilities: 38.90 68.10 87.20 104.62 130.77 156.93 183.61 211.15 242.82 267.10 288.47 302.90
- Accrued tax, audit & legal fees, other accrued expenses: 24.90 33.40 48.50 79.71 99.64 119.57 139.80 160.88 185.01 203.51 219.79 230.78
- Deferred Revenue: 0.80 0.90 3.20 4.98 6.23 7.47 8.74 10.05 11.56 12.72 13.74 14.42

**Total non interest-bearing current liabilities:**

64.60 102.40 138.90 189.31 236.64 283.97 332.24 382.08 439.39 483.33 522.00 548.10

#### Net Operating Working Capital:

117.74 148.40 175.61 253.88 292.44 343.45 401.84 452.06 519.87 571.86 617.60 648.48

#### Core Value Drivers

- **ROIC:** -44.40% -24.43% -9.27% 14.52% 19.98% 26.28% 29.62% 28.18% 35.08% 38.38% 42.16% 48.01%
- **EP:** -66.01 -62.76 -48.88 26.36 64.25 114.76 160.97 174.00 256.60 318.20 383.93 475.08
- **FCF:** 13.98 50.98 28.62 181.11 210.39 273.41 322.20 342.47 421.83 468.04 527.70 604.39
**DexCom Inc (NMS: DXCM)**  
*Discounted Cash Flow (DCF) and Economic Profit (EP) Valuation Models*

**Key Inputs:**  
- CV Growth: 5.00%  
- CV ROIC: 48.01%  
- WACC: 7.09%  
- Cost of Equity: 7.24%  

**Fiscal Years Ending Dec. 31**

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**EP Model**

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**For Discounting:**  
- **Number of Periods**: 1 2 3 4 5 6 7 8 8  

**Model Date**: 11/12/2018  
**Next FYE**: 12/31/2018  
**Last FYE**: 12/31/2017  
**Days in FY**: 365  
**Days to FYE**: 316  
**Elapsed Fraction**: 0.866  
**Adjusted Target Price**: 176.85
DexCom Inc (NMS: DXCM)

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

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**Key Assumptions**

- CV growth: 5.00%
- CV ROE: 19.54%
- Cost of Equity: 7.24%

**Future Cash Flows**

- P/E Multiple (CV Year): 33.27
- EPS (CV Year): 4.36
- Future Cash Flows: 145.13
- Discounted Cash Flows: 82.99

**Intrinsic Value**: 82.99

For Discounting:

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**Adjusted Target Price**: 88.16
## DexCom Inc (NMS: DXCM)

### Relative Valuation Models

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<th>Sales (M) 2018E</th>
<th>Sales (M) 2019E</th>
<th>P/Sales 18</th>
<th>P/Sales 19</th>
<th>EV 18</th>
<th>FCF 18</th>
<th>EV 19</th>
<th>FCF 19</th>
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**Average**

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### Implied Relative Value:

- **P/S (18)**: $215.46
- **P/S (19)**: $215.89
- **EV/FCF(18)**: $820,681.66
- **EV/FCF (19)**: $1,776,513.77
DexCom Inc (NMS: DXCM)

Key Management Ratios

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<tr>
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<tr>
<th>Share Price</th>
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<th>Share Price</th>
<th>WACC</th>
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<td>0.683</td>
<td>168.76</td>
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<td>3.49%</td>
<td>159.81</td>
<td>5.59%</td>
<td>137.64</td>
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<td>3.99%</td>
<td>157.05</td>
<td>6.09%</td>
<td>133.84</td>
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<td>4.49%</td>
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<td>130.67</td>
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<td>4.99%</td>
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<td>2.17%</td>
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<td>2.67%</td>
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### Present Value of Operating Lease Obligations (2018)

<table>
<thead>
<tr>
<th>Fiscal Years Ending Dec. 31</th>
<th>Operating Leases</th>
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<tbody>
<tr>
<td>2018</td>
<td>10.1</td>
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<td>2020</td>
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<td>Less: Interest</td>
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### Present Value of Operating Lease Obligations (2017)

<table>
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<th>Fiscal Years Ending Dec. 31</th>
<th>Operating Leases</th>
</tr>
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<tbody>
<tr>
<td>2017</td>
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<tr>
<td>2018</td>
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<tr>
<td>2019</td>
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<td>2020</td>
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<tr>
<td>2021</td>
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<tr>
<td>Thereafter</td>
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### Present Value of Operating Lease Obligations (2016)

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</tr>
<tr>
<td>2017</td>
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<tr>
<td>2018</td>
<td>5.2</td>
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<tr>
<td>2019</td>
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<tr>
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<tr>
<td>Thereafter</td>
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<tr>
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<tr>
<td>Less: Interest</td>
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</table>

### Capitalization of Operating Leases

<table>
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<tr>
<th>Year</th>
<th>Lease Commitment</th>
<th>PV Lease Payment</th>
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<tr>
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<td>10.5</td>
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<tr>
<td>5</td>
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<td>3.2</td>
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<tr>
<td>6 &amp; beyond</td>
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<td>PV of Minimum Payments</td>
<td>52.0</td>
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### Capitalization of Operating Leases

<table>
<thead>
<tr>
<th>Year</th>
<th>Lease Commitment</th>
<th>PV Lease Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
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<td>7.3</td>
</tr>
<tr>
<td>2</td>
<td>9.9</td>
<td>9.3</td>
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<td>10.0</td>
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<td>6 &amp; beyond</td>
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<tr>
<td>PV of Minimum Payments</td>
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### Capitalization of Operating Leases

<table>
<thead>
<tr>
<th>Year</th>
<th>Lease Commitment</th>
<th>PV Lease Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
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<td>5</td>
<td>5.3</td>
<td>4.6</td>
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<tr>
<td>6 &amp; beyond</td>
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<td>PV of Minimum Payments</td>
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</table>
## Effects of ESOP Exercise and Share Repurchases on Common Stock Balance Sheet Account and Number of Shares Outstanding

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</thead>
<tbody>
<tr>
<td>Number of Options Outstanding (shares):</td>
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<tr>
<td>Average Time to Maturity (years):</td>
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<td>Expected Annual Number of Options Exercised:</td>
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<td>Current Average Strike Price:</td>
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<tr>
<td>Cost of Equity:</td>
<td>7.24%</td>
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<tr>
<td>Current Stock Price:</td>
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<tr>
<td>Increase in Shares Outstanding:</td>
<td>307,692</td>
<td>92,308</td>
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<td>$ 619,385</td>
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<tr>
<td>Change in Treasury Stock</td>
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<tr>
<td>Expected Price of Repurchased Shares:</td>
<td>$</td>
<td>$ 141.81</td>
<td>$ 152.07</td>
<td>$ 163.08</td>
<td>$ 174.88</td>
<td>$ 187.53</td>
<td>$ 201.11</td>
<td>$ 215.66</td>
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<tr>
<td>Shares Outstanding (beginning of the year):</td>
<td>88,844,345</td>
<td>89,152,037</td>
<td>89,244,345</td>
<td>89,244,345</td>
<td>89,244,345</td>
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<td>89,244,345</td>
<td>89,244,345</td>
<td>89,244,345</td>
<td>89,244,345</td>
</tr>
<tr>
<td>Plus: Shares Issued Through ESOP</td>
<td>307,692</td>
<td>92,308</td>
<td>0</td>
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<tr>
<td>Less: Shares Repurchased in Treasury</td>
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<td>Shares Outstanding (end of the year)</td>
<td>89,152,037</td>
<td>89,244,345</td>
<td>89,244,345</td>
<td>89,244,345</td>
<td>89,244,345</td>
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<td>89,244,345</td>
<td>89,244,345</td>
<td>89,244,345</td>
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</tbody>
</table>
## VALUATION OF OPTIONS GRANTED IN ESOP

Ticker Symbol: DXCM  
Current Stock Price: $141.81  
Risk Free Rate: 3.08%  
Current Dividend Yield:  
Annualized St. Dev. of Stock Returns: 40.65%

<table>
<thead>
<tr>
<th>Range of Outstanding Options</th>
<th>Number of Shares</th>
<th>Average Exercise Price</th>
<th>Average Remaining Life (yrs)</th>
<th>B-S Option Price</th>
<th>Value of Options Granted</th>
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<tr>
<td>Range 1</td>
<td>400,000</td>
<td>6.71</td>
<td>1.30</td>
<td>$135.36</td>
<td>$54,145,344</td>
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<td>Total</td>
<td>400,000</td>
<td>$6.71</td>
<td>1.30</td>
<td>$135.36</td>
<td><strong>$54,145,344</strong></td>
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DexCom Inc (NMS: DXCM)

Key Assumptions of Valuation Model

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<th>Parameter</th>
<th>Value</th>
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<tbody>
<tr>
<td>Ticker Symbol</td>
<td>DXCM</td>
</tr>
<tr>
<td>Current Share Price</td>
<td>141.81</td>
</tr>
<tr>
<td>Current Model Date</td>
<td>11/12/2018</td>
</tr>
<tr>
<td>FY End (month/day)</td>
<td>Dec. 31</td>
</tr>
<tr>
<td>Pre-Tax Cost of Debt</td>
<td>2.92%</td>
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<tr>
<td>Beta (3-yr)</td>
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<tr>
<td>Risk-Free Rate</td>
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</tr>
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<td>Equity Risk Premium</td>
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<td>WACC</td>
<td>7.09%</td>
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<tr>
<td>CV Growth of NOPLAT</td>
<td>5.00%</td>
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<tr>
<td>CV Growth of EPS</td>
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<td>Current Dividend Yield</td>
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