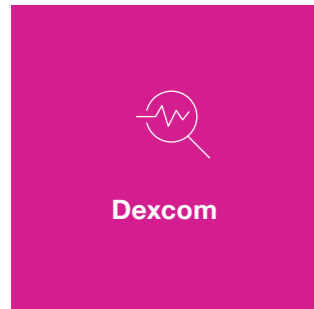


Dexcom

Diabetes management

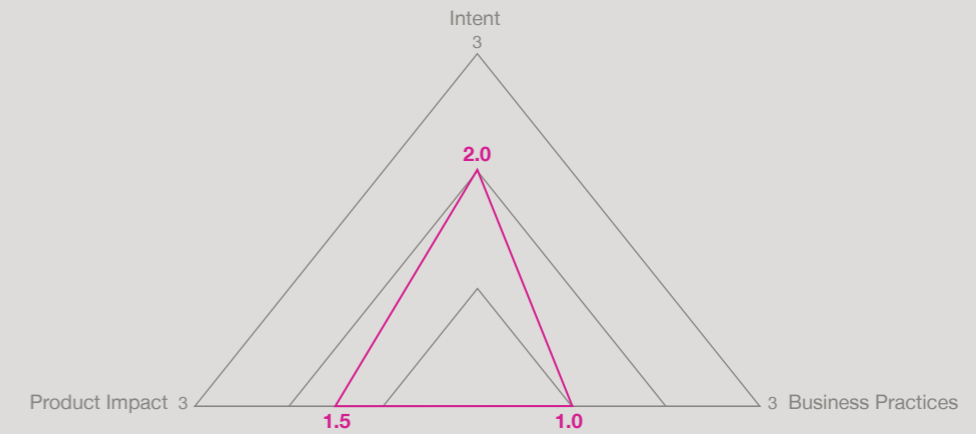


Dexcom provides Continuous Glucose Monitoring (CGM) systems to help diabetes patients manage their condition. Patients wear a sensor placed under the skin that is attached with an adhesive patch; a transmitter is placed on top which transmits readings to a receiver or mobile device.

Investment Case

What challenge is the Company tackling?	In the US alone, there are an estimated 29 million people with diabetes (+ 89 million with prediabetes- the population at risk, of whom 15-30% will develop type 2 within 5 years). The risk of death is 50% higher for adults with diabetes than for those without the disease. Medical costs associated with diabetes in the US are over \$150bn a year - if you consider lost work/wages, the total cost rises to over \$240bn. Global incidence is similar to the US – the World Health Organisation estimates that 9% of adults have diabetes and forecasts it will be the 7th leading cause of death by 2030.
Is the Company's offering sufficiently different and better than the status quo?	The conventional method to measure glucose levels (and hence determine how much insulin to inject) is to use a finger stick test – a pin is used to draw a small amount of blood from the finger which is placed on a sensor to give a reading. This provides a point reading but no information on how blood glucose levels might fluctuate between tests or if levels are rising or falling. It is the fluctuation in blood glucose levels outside safe parameters that does so much of the long-term damage associated with diabetes. Using a CGM system provides more information about how glucose levels have trended over time, allowing patients to better manage their condition within safe parameters, hopefully preventing many of the long term medical complications associated with diabetes (heart, kidney, nervous and eye conditions). Using Dexcom's products can improve the quality of life and provide long term health benefits to diabetics. It could also be used as a preventative measure.
Is there a committed management team? What have they done before?	The chairman has been involved in the area for several decades. He previously sold an insulin pump business to Medtronic in 2001. The company is focused entirely on CGM. Our investor's visits to the HQ backed up the feeling that there is a sense of mission about the company. R&D investment has remained fairly constant at 25% of the growing revenue base.
How does the Company treat stakeholders?	Dexcom is committed to improving patient lives and rhetoric suggests that employees like working with this patient focus and the opportunity to change lives. The company works hard with payors to increase the accessibility of its products. Components of its system are disposable but there are not yet any recycling initiatives we are aware of.
Is there a potential to create a profitable and defendable business?	The company has grown market share to 60% (from c45% in 2012), its edge being its focus and subsequent technological edge in terms of sensors and software. It is still loss making but makes c70% gross margins. An operating margin of 20%+ might seem reasonable for a medical devices company with a strong competitive edge selling consumables.
Is the business attractively valued?	There are 3.2 million insulin intensive diabetic patients in the US alone and 7-8 million globally, of which only c5% currently use CGM systems. As awareness and accessibility of these systems expands we expect a growing portion of patients to use them, providing scope for revenues to double over the next five years even with price declines. In addition, the patient population beyond insulin intensive patients is a multiple of the size of the current addressable market. For example, there are over 80 million people in the US who are at-risk of developing the disease who would benefit from using CGMs to make lifestyle adjustments to prevent its onset.

Impact Analysis



Product Impact

Dexcom's CGM devices enables users to better manage the disease and there is a growing evidence base for the physiological and psychological benefits this can have. Globally the total addressable market is huge and the success of Dexcom's long- term strategy will be dictated by its ability to increase its penetration, which is currently limited to developed markets. Whilst other methods of glucose monitoring and other CGM devices are available, the evidence suggests that Dexcom's products are superior.

Intent

Dexcom outlines a clear mission to help diabetes sufferers better manage their illness. Investment in R&D is consistently high, and the company has shown a willingness to collaborate with other businesses and initiatives with complimentary expertise that are also working to solve the diabetes illness.

Business Practices

The company demonstrates an awareness of its impact on its stakeholders and has responded well to prior incidents. However, poor disclosure of internal policies and provisions across a number of areas as well as a lack of efforts to promote better practices on an industry wide basis prevent awarding a higher score at this time.

	Relevant Targets	Relevant Products
	Target 3.4 By 2030, reduce by one third premature mortality from non-communicable diseases through prevention and treatment and promote mental health and well being.	Access to continuous real-time glucose measurements provides people with diabetes information that may aid in attaining better glucose control. Peer review data is supportive that patients using the systems show statistically significant improvements in maintaining their glucose levels within the target range, thereby reducing time spent in hyper/hypo-glycemic ranges when compared to point finger stick measurements; likewise, data shows that patients using the system have reduced A1c levels (a measure of the average amount of glucose in the blood) over the prior three months.

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