MEMORANDUM

Dexcom 1Q13 - Revenue up 49%, company driving towards profitability; FDA filing of new G4 algorithm in late 2013/early 2014 - May 17, 2013

Executive Highlights

- Dexcom's product revenue grew to $28 million in 1Q13, up 49% from 1Q12. Sequentially, revenue was down 12% (expected due to seasonality). Cash operating loss was just $3.7 million in 1Q12.
- Dexcom is poised to launch five new products in the next 12-18 months, including a new algorithm for the G4 Platinum expected to improve accuracy (MARD) by two percentage points.

Dexcom reported 1Q13 financial results earlier this month in a call led by CEO Terry Gregg and President Kevin Sayer. Product revenue grew to $28 million, a 49% increase from 1Q12 - this was impressive and represents an acceleration in growth (1Q12 was 42%) from a higher base of sales. Sequentially, product revenue fell 12% from 4Q12, consistent with the 11% sequential decline observed between 4Q11 and 1Q12 (this seasonality was expected as deductibles reset and patients must pay more out of pocket). Mr. Sayer emphasized the progress in driving the company towards profitability - though net loss was $11 million in 1Q13, cash operating loss was just $3.7 million, down substantially from $9.7 million in 1Q12. Put differently, this means that the $9 million jump in sales from 1Q12 brought $6 million to the bottom line on a cash basis (also a big deal, and Mr. Sayer's favorite number of the call). Indeed, gross margin was 55% in 1Q13, up from 49% in 1Q12 - a big gain. Management expects gross margin to rise to 70-75% on disposables, with durables remaining steady at around 50%. The international business was "consistent" and continues to represent 5-10% of product revenue. Management stated that it was "somewhat overshadowed by strong domestic growth" - we assume this means the ex-US business grew along with the US, just not as much. Notably, Dexcom expects to be commercialized in 30 countries by the end of 2013, a 50% increase over 20 countries at the end of 2012. The company also just secured G4 Platinum approval in Canada, with launch expected in 3Q13. China and Japan were also specifically mentioned, two countries where several potential opportunities are being evaluated. Last, it was very encouraging to hear that 20 payers are now covering CGM for type 2s, representing 20 million covered lives. Management maintained the 2013 product revenue guidance of $120-$130 million (a 29%-40% increase over 2012 performance).

On the pipeline front, Dexcom has five (!) products slated to launch in the next 12-18 months: 1) a pediatric indication for the G4 Platinum (under FDA review; the 4Q12 call guided for a 2H13 approval); the Animas Vibe (under FDA review, with potential launch in 4Q13 or early 2014 at Animas' discretion); 3) the Dexcom Share remote monitoring product (FDA filing still slated for 3Q13; this was characterized as a baby step towards Gen 5 - brilliant); 4) a G4 Platinum-integrated Tandem t:slim pump (FDA filing before year-end); and in new news, 5) an updated algorithm for the G4 Platinum (FDA filing in late 2013/early 2014). The latter originally began as a special version of the G4 Platinum for the artificial pancreas, but will now be available to patients hopefully by next year - notably, this algorithm is expected to improve MARD by a full two percentage points, meaning the G4 should have some days during the week with a sub-10% MARD. We expect the new algorithm to be a software upgrade. We loved hearing management's commentary on the new product pipeline strategy - in a departure from the multi-year drought of new products between the Seven Plus and G4 Platinum, the new goal is to have a steady stream of incremental improvements. Given the regulatory environment, this seems a very smart way to go and we're excited for patients on this front.

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FINANCIALS

- **Dexcom product revenue of $28 million rose 49% from 1Q12 revenue of $19 million** when growth was 42%. Notably, growth accelerated despite the higher base (1Q12 revenue was $6 million greater than 1Q11). As a reminder, Dexcom remarked during its 4Q12 call that it exited the quarter feeling like it still had patients to sell to, which speaks to an expanding patient base - we certainly continue to believe that there are countless more patients who could benefit from CGM. Management commented that sales reps are now able to go deeper into existing accounts due to greater patient and provider acceptance - we think the improved reliability and accuracy of the G4 must make the sales job much easier. Further, Dexcom is likely still weathering the impact of irregular purchase patterns related to the transition. Management remarked that Seven Plus customers have lower reorder numbers than historically seen, as patients want to delay upgrade until their Seven Plus sensor stock is used up. This could represent a small boon in the quarters to come as these patients transition to the G4 and resume typical reorder patterns. We will look forward to learning more about reorder patterns; at this stage, we believe patients could reorder faster due to even higher satisfaction with the G4 product.
- **Sequentially, product revenue in 1Q13 fell 12% from 4Q12 sales,** which is consistent with the sequential decline in 1Q12 (-11%). At the time of the company's 4Q12 call, management had expected "softness" in 1Q13 sales due to the resetting of deductibles and flexible spending accounts, and indeed during the 1Q13 call, management pointed to the seasonality tied to patients' insurance structures.

Worldwide Product Revenue						
	4Q11	**1Q12**	**2Q12**	**3Q12**	**4Q12**	**1Q13**
Product Revenue (millions)	$20.90	$18.62	$21.5	$21.1	$31.70	$27.8
Year-over-Year Growth	53.70%	41.70%	41.6%	26.6%	51.70%	49.3%
Sequential Growth	25.50%	-10.90%	15.5%	-1.9%	50.4%	-12.3%

- **Total 1Q13 revenue was $30 million in 1Q13, up 47% year over year.** Sequentially, revenue fell 11%, consistent with the 1Q12 sequential decline of 10%. As a reminder, in the 4Q12 update Dexcom forecasted $1 million to $1.1 million in development grants in 1Q13 and expected revenue from development grant revenue to decline to ~$100,000 per quarter through 2014. Reiterating comments made during 4Q12, Dexcom does not expect significant sales for Dexcom/Edwards' GlucoClear this year. As to the financial agreement, our understanding is that Edwards will be selling the GlucoClear system and Dexcom will be building and supplyingsensors. For greater detail on the GlucoClear product, see our Edwards 1Q13 report athttp://www.closeconcerns.com/knowledgebase/r/72d70004.

Worldwide Total Revenue						
	4Q11	**1Q12**	**2Q12**	**3Q12**	**4Q12**	**1Q13**
Total Revenue (millions)	$22.40	$20.10	$23.5	$23.1	$33.30	$29.6

Year-Over-Year Growth	43%	42%	9%	26%	49%	47%
Sequential Growth	22%	-10%	17%	-1.7 %	44%	-11%

- **Looking forward, management continues to forecast 2013 product revenue of $120-130 million,** representing a 29-40% increase over 2012 performance. In the 4Q12 call, management emphasized that the timing of its G4 Platinum pediatric indication approval in the US will largely determine at which end of the guidance revenue falls. At that time, Dexcom also noted that the guidance did not assume an Animas Vibe approval.
- **International sales represented 5-10% of total product revenue in 1Q13**, similar to previous quarters. Using the similar language as in 4Q12, strong US growth "somewhat overshadowed" consistent international growth. We are curious whether there was a slight uptick in growth related to the launch of the G4 Platinum for peds, but lack the granularity on OUS sales numbers to determine this.
- **Dexcom's 1Q13 product gross profit totaled $15.4 million (a 55% product gross margin)** compared to $9.0 million (a 49% product gross margin) in 1Q12 and $17.2 million (a 54% product gross margin) in 4Q12. Management pointed to three factors impacting the quarter's product gross margin: 1) the $399 in-warranty upgrade program; 2) manufacturing scale-up activities for G4 Platinum; and 3) continued support of Seven Plus sensor manufacturing.
    - **For the G4 Platinum sensor, management is "very convinced" that Dexcom can achieve 70-75% product gross margins;** said management, "we can even go better than that as volumes permit us overtime." This reflects just a slightly increased margin forecast from 4Q12, possibly indicative of a better-than-expected manufacturing experience. This was great news. During 4Q12 call management guided for 65-75% product gross margins when manufacturing at large volumes and expected to achieve the higher end of the range in the long term. Hardware margins are expected to be ~50%.
- **Sales of G4 Platinum hardware contributed to ~30% of product revenue, with the remaining ~70% being attributed to sales of G4 Platinum and Seven Plus sensors.** The Average Selling Price (ASP) for sensors increased slightly to $65-70 per sensor, which translates to ~$260-280 for four sensors (previously, the Seven Plus and G4 Platinum were selling for ~$260 for four sensors). ASP for hardware was ~$800-850 per starting kit.
- **Product cost of sales totaled $12.4 million, up 29% from $9.6 million in 1Q12.** Management attributed the increase to increased volume of product sales, a positive for the company. Sequentially, product costs of sales fell 14% from $14.5 million in 4Q12. Total cost of sales was $13.1 million, up 22% from $10.7 million in 1Q12 and down 17% from $15.8 million in 4Q12.
- **Dexcom spent $9.3 million on R&D in 1Q13, down 1% from $9.4 million in 1Q12.** On a sequential basis, R&D expenses grew 7% from $8.7 million in 4Q12. The company noted lower clinical trial and consulting costs, but higher salary costs, payroll costs, and share-basedcompensations. The sequential increase was attributed to increased spending on the development of the company's mobile platforms.
    - **Management reiterated its guidance for flat R&D growth in 2013 compared to 2012**, with the caveat that R&D spending will be subject to regulatory factors and opportunities. Certainly, Dexcom's robust pipeline will mean continued investment in R&D, especially as the company moves forward with development of its next-generation sensors, Tandem pump integration plans, mobile and cloud-based platforms, and the impending filing of Dexcom Share (see below).
- **SG&A costs were $18.1 million in 1Q13, up 18% from $15.4 million in 1Q12.** Sequentially, SG&A spending grew 5% from $17.2 million in 4Q12, which was used to support revenue growth,

according to management. This is unsurprising given the company is in the midst of a launch of an increasingly popular product.

    - **As a reminder, Dexcom underwent sales restructuring to support the G4 Platinum launch**, including: 1) increasing the number of US territories from 48 to 68;2) transitioning the clinical support staff from the field to the phones/online; and 3) increasing the sales team (which includes both sales reps and clinical support) by ~15%. At the time of the 4Q12 call, the sales restructuring was expected to complete by early 2Q13.
    - **According to comments made in the 1Q13 call, the reorganization and increase in sales force is nearly complete**: "with the exception of just a couple slots, we've filled the entire organization." Dexcom has added the 20 additional territories and does not intend to add any more additional areas this year.
    - **The SG&A increase in 1Q13 reflects management's guidance for 20% increase in SG&A expenditure in 2013**, as outlined during the 4Q12 call.

- **Net loss was $11.1 million, a 21% improvement from the 1Q12 net loss of $14.1 million.** The net loss in 1Q13 included $7.2 million in non-cash expenses (share-based compensation, depreciation, and amortization). Sequentially, net loss increased by 31% from $8.5 million in 4Q12. "The net loss of $11.1 million included $7.2 million in non-cash expenses, comprised primarily of share-based compensation, depreciation, and amortization."**Said management, "We are pleased with our progress in driving the company to profitability." M**r. Sayer explained that while net loss was $11 million, operating loss was $3.7 million, down from $9.7 million in 1Q12. As such, the $9 million increase in product revenue from 1Q12 to 1Q13 contributed $6 million to the bottom line on a cash basis, reflecting major gains in operating profitability.
- **As of March 31, Dexcom held $45.3 million in cash, cash equivalents, and marketable securities, a cash burn of $3.4 million from $48.7 million at the end of 4Q12.** Dexcom emphasized that it does not intend to raise additional equity money. Management believes that with the company's growth rate, Dexcom can achieve profitability. However, management did not provide specific granularity on a timeline for reaching positive cash flow during the call.

G4 PLATINUM - COMMERCIALIZATION, PEDIATRIC INDICATION, AND PIPELINE

- **In 1Q13, Dexcom filed a PMA supplement with the FDA to seek a pediatric indication for the G4 Platinum; the company continues "to have a regular, open dialogue with the FDA."** Management did not give an expected approval date during the call; in the 4Q12 call, a 2H13 approval was anticipated. Management outlined two key advantages of an expanded indication: 1) it "significantly expands the number of endocrinologists" Dexcom reps can call on in the US; and 2) the company will be able to recommend the G4 Platinum to patients as young as two years old ("a first for a CGM"). While some HCPs undoubtedly prescribe Dexcom CGM off label, this should be a very important catalyst for the company in the coming year since some pediatric endocrinologists are not comfortable prescribing off label and even if they are, reimbursement should be improved further once the FDA grants pediatric approval.
    - **About 15-20% of Dexcom's current installed base is pediatrics - management believes this could rise to 30% in about a year.** Following approval, the biggest key factor in doubling Dexcom's pediatric installed base is simply to get in front of endocrinologists. Fortunately, since most these prescribers work in group practices, Dexcom does not anticipate needing to add additional sales reps to address this new market.
    - **Per comments in Dexcom's 4Q12 call, the approval timing of the pediatric indication will weigh heavily on where Dexcom falls within its 2013 full-year revenue guidance**. In that call, management expected strong growth in 2013, guiding for a full year revenue in the range of $120-$130 million, a 29%-40% increase over 2012.

- **As a reminder, Dexcom's G4 Platinum received CE Mark approval for pediatric patients just before ATTD 2013;** the company has since begun marketing to pediatric patients in Europe. For more information on the marketing in Dexcom's booth, see our ATTD 2013 Exhibit Hall Report at http://www.closeconcerns.com/knowledgebase/r/2ee8dd78. We think the pediatric approval will make a bigger difference in the US; it is great to see in the EU, but overall reimbursement has much further to go in the EU and hasn't seen the progress the US has.

- **In new news, Dexcom expects to file a PMA supplement with the FDA for an updated G4 Platinum algorithm in late 2013 or early 2014.** Notably, this algorithm is expected to improve MARD by a full two percentage points, meaning the G4 Platinum should have some days during the week with a sub-10% MARD - as a reminder, the MARD in the G4 Platinum pivotal study was 13%, though a comparison study from Drs. Ed Damiano and Steven Russell saw a MARD of 11% for the G4 Platinum - that beat out Medtronic's Enlite (17%) and Abbott's Navigator (12%). For more on that study, see page 31 of our ADA 2012 report at http://www.closeconcerns.com/knowledgebase/r/11c4fcda.
  - **The new G4 Platinum algorithm will hopefully be available to patients in 2014; we expect it will be a web-based software upgrade** -this would be very positive from a patient perspective, as Dexcom users could immediately access the new technology without needing to pay/wait for a new receiver. For Dexcom, it's also very smart from a cost-saving and product iteration/innovation perspective. We also hope this opens the door to future product improvements via the web, which are a mainstay in tech/mobile but seem to be just beginning in diabetes. Certainly, regulatory barriers make this more challenging, though we think it's a no-brainer provided the right software testing and validation occurs.
  - **The new algorithm originally began as a special version of the G4 Platinum for the artificial pancreas ("G4AP").** We're glad to see that management decided to expand the program, not always an easy decision for a high-growth, resource-constrained medical device company. While two-percentage points may not sound like much, we note that the improvement from the Seven Plus to the G4 Platinum was three percentage points - and that has definitely not been trivial. Indeed, the relative improvement in accuracy is 15% with the new algorithm (going from a MARD of 13% to 11%), roughly comparable to the 19% improvement from the Seven Plus to the G4 Platinum (16% to 13%).
  - **"This algorithm, we believe, will lead to increased profitability."** Management highlighted that the new algorithm will improve accuracy and reliability, factors that will improve the CGM experience for customers. This is easy to see why management believes this - these two factors were clear improvements with the G4 Platinum, which has been extraordinarily well received by the clinical and patient communities, as well as scientific communities on the research front.

- **Surveys suggest that adoption of the G4 Platinum is increasingly driven by patient- to-patient communication.** A recent survey of approximately 300 patients indicated that for about 70% of the Seven Plus respondents, their physician was the most influential driver in choosing CGM. However, only 50% of G4 Platinum respondents cited that their physician was a driving factor.

- **In the last year, 12 private payers (representing ~20 million covered lives) have amended their policies to provide coverage of CGM for insulin-using type 2 patients.** This is an addition to both Cigna and Anthem, who already had policies in place. Said management, "We believe our future is very bright." This was very encouraging progress to hear - we wonder what out of pocket costs will look like, as well as how onerous the documentation requirements are for type 2s wishing to start CGM. Over time, we believe far more type 2 patients will be asking for CGM as they seek to improve their diabetes management.

- **We hope to see more peer-reviewed, well-conducted studies that demonstrate the benefits of real-time and retrospective CGM for type 2s.** Dr. Robert Vigersky's study of real-time intermittent CGM in type 2s not on mealtime insulin (Vigersky et al., Diabetes Care 2011) has been a highlight in recent years. We're also on the lookout for results from a Medtronic study that's been on our radar screen the past few quarters - "Examining The Role of CGM in T2DM" (ClinicalTrials.gov Identifier: NCT01614262). The study is currently recruiting at two centers under PIs Drs. John Buse and Bruce Bode, two of the most respected researchers around. Most notably, the 90 type 2s will be on orals only. Medtronic's iPro2 blinded CGM will be used as part of a clinical management algorithm. The estimated primary completion date is December 2013. We look very forward to ADA in seeing new research as well.

- **By the end of the year, Dexcom expects to be commercial in up to 30 countries worldwide, a 50% jump from 20 countries at the end of 2012.** In China and Japan, management had "a number of productive meetings with potential business partners" during the first quarter. Management gave few specifics, noting only that partners are being evaluated and the company is learning about the "most prudent regulatory path into these countries."
    - **Dexcom received approval from Health Canada to begin marketing the G4 Platinum in Canada.** The initial approval is for adults only, though Dexcom expects tofile a supplement seeking pediatric approval later this quarter. Dexcom's Canadian distributor expects to commence a limited launch at the beginning of the third quarter, with a full launch before the end of the quarter.
- **Dexcom management commented on the Medtronic Veo, highlighting the regulatory challenges given the Enlite sensor's accuracy:** "From an FDA standpoint, you've got a product that's been in before the FDA - they've seen our data, which is part of our strategy. And now they're looking at something [Medtronic's Enlite] that can have a MARD for a sensor in order to shut off insulin delivery of somewhere close to 18%. It's a conundrum. It's a conundrum for the Agency to say what are we going to do here. Now most recently, you're hearing from Medtronic about Enlite 2 and other things predictive. I don't think the market reaction is that there's a huge pent-up demand. I know they're suffering, but I don't think it's related to waiting for the Veo system."

PARTNERSHIP UPDATE

- **Animas filed a PMA with the FDA seeking approval of the Vibe insulin pump with integrated Dexcom G4 Platinum CGM.** This was on par with the timing given in the 4Q12 call. Management was very candid in Q&A, noting that if approval came late in the third quarter or very, very early in the fourth quarter, Animas would probably launch the pump soon after. However, if FDA approval takes until the middle or latter half of the fourth quarter, Animas would likely defer to a first quarter launch. Dexcom does not control the launch, since it is Animas' pump.
    - **We will be interested to see if the Animas Vibe differs from the version already out in Europe.** As we've seen it, that pump is basically identical to the current OneTouch Ping, except with CGM integration. Given Insulet's journey through the human factors ringer at FDA, we would guess Animas had to modify at least some of the pump's user interface to comply with the FDA's tighter pump requirements. We do not expect the Vibe to have a LifeScan meter remote like the OneTouch Ping, so it will also be illuminating to see how parents perceive this tradeoff. At Dexcom's product theater at AACE, one parent was a particularly fervent fan of the G4 Platinum, but expressed dissatisfaction that the Vibe would not have a meter remote.
    - **Management was confident that the Verio recall would not materially affect the Vibe**. The Verio recall falls under LifeScan, which is actually a separate operating company from Animas ("they operate somewhat together as a diabetes franchise, but they're two distinct companies").

- **Tandem and Dexcom will file a PMA with the FDA for a G4 Platinum-integrated t:slim before the end of this year.** Management said the companies "continue to work diligently" to incorporate the G4 Platinum into a next-generation version of Tandem's t:slim. It's impressive to see how quickly the companies have moved forward on this program, which was originally slated to integrate Gen 5 just one year ago. We think Tandem is going to be receiving greater visibility due to closed loop trials that it is part of and believe it is very good news for the pump company that it is moving so fast on integrated CGM.
- **Dexcom management stuck to the script on the GlucoClear critical-care CGM partnership, exactly quoting Edwards' 1Q13 call:** "We remain enthusiastic about the significant opportunity represented by our GlucoClear system." In 2013, Edwards expects to complete additional studies of the GlucoClear in Europe and gain greater clarity on the pathtowards US approval. Dexcom management also reiterated comments from its own 4Q12 call - namely, that significant sales for GlucoClear are not expected this year. Given the unmet need, it has been disappointing not to see this project move faster. At least here in the US, the FDA seems to have stalled forward progress; in Europe, we wonder if it's more about collecting enough positive clinical data to justify reimbursement.

PIPELINE UPDATE - FUTURE PRODUCTS

- **"We continue to make considerable progress on the Dexcom Share system" - a PMA supplement filing is still targeted for 3Q13.** Management characterized Dexcom Share as "absolutely" a baby step for the more ambitious Gen 5 mobile platform. The Share product will require Dexcom to build a server structure, learn how to receive the data, and learn how to display the data back on the phone. Of course, the regulatory path for Share is much easier than Gen 5, as the G4 Platinum receiver is still the primary medical device with Share ("something that the FDA can comprehend and that we've made them comfortable with"). While Dexcom could certainly jump the gun and go straight for the home run with Gen 5, it seems much better for patients to get FDA comfortable with an intermediate product like Share.
    - **As a reminder, Dexcom Share is a docking station for the G4 Platinum receiver, enabling wireless transmission and glucose information to designated recipients**. The recipients can then view the CGM data on a smartphone. For example, a parent could receive their child's glucose information during the nighttime while they sleep in another room, or during the school day while the parent is at work. Share will also have important non-pediatric applications (e.g., a spouse while at work or when traveling). Said President Kevin Sayer, "The sense of comfort there is something that's going to be a big deal. And in our minds, as I walk around here and say all the time, that's going to sell more sensors." We certainly see why he thinks this.
- **Dexcom has continued development on the Gen 5 system and is actively discussing the mobile phone platform with the FDA.** There is no defined timeline, though management made it clear that Gen 5 will come after the five planned enhancements/indications are launched over the next 12-18 months (see the first five rows in the table below).
    - **Encouragingly, the Agency "has been very cooperative" on Gen 5 and "the path is becoming more clear with each and every step."** The FDA has been working with Dexcom to define the regulatory process and identify all the risks and mitigation steps. Notably, the Agency has expressed "on a number of fronts that they are very comfortable with the device making a jump straight to a phone without something in between or without a medical device around it with all the mitigating factors."
    - **As a reminder, Gen 5 will include an improved applicator, though it will retain the G4 Platinum sensor.** We are intrigued to hear more about the improved applicator - at minimum, we expect this would reduce pain and simplify the insertion process. We

wonder if a better applicator would also result in smoother insertion, a smaller wound response, and perhaps even improve early sensor accuracy.

    - **As we understand it, some studies this summer will be using the Gen 5 system.**

- **Instead of a fixed-time shutoff (e.g., seven days or ten days), Gen 5 or Gen 6 might include a variable shutoff based on the sensor's performance**. This would entail analgorithm that detects the signal from the sensor's electrode. When it's not up to standard, the sensor would simply shut down. Management said this will not be part of the updated G4 Platinum algorithm discussed above. From a patient perspective, we think this would be another real positive - certain sensors seem to work really well and last for much longer than the indicated wear time (82 days for one Seven Plus sensor in Dr. Yoeri Luijf's study), while others can fall short of the indicated wear time (less of an issue with G4 Platinum than with the Seven Plus). In a sense, the variable shut-off would individualize a particular sensor to the surrounding biological environment - very cool. This should allow patients to reap the benefits of more accurate sensors beyond the indicated wear time, and also ensure perfectly excellent functioning sensors are not thrown out at seven or ten days.
- **Management did not provide updates on the SweetSpot cloud-based data management system or the Qualcomm platform.** As of 3Q12, the goal was FDA submission of the SweetSpot system by the end of 2012. There has been no update on the SweetSpot platform progress since. At Dexcom's product theater at AACE 2013, Dr. Claudia Graham stated in Q&A that Dexcom is "submitting this year for a cloud-enabled system that can download to an EMR." We look forward to learning more on subsequent calls, as we continue to hear more and more patients and providers demanding better data management solutions.
- **Philosophically speaking, Dexcom now plans to make incremental product improvements that are independently filed and not interlinked**. This was great to hear given the multi-year break between the Seven Plus and G4 Platinum. Practically speaking, Dexcom will file the updated G4 Platinum algorithm (see above), which may end up as the algorithm Gen 5 also launches with. A Gen 5.5 algorithm could come along, though that will also depend upon the timing of the Gen 6 sensor. This new strategy was stated with an important caveat: "We don't want to do things that aren't going to lead to increased profitability." This is very important from a shareholder perspective.
- **Dexcom's pipeline has a steady stream of products coming in the next few years.** We believe the company is well positioned to capitalize on a number of fronts and shore up current areas of comparative weakness - pediatrics, pump patients that demand CGM integration, cloud-based software (especially for HCPs and clinical trials), and hospital patients. The table is informed by the 1Q13 update, JP Morgan Healthcare conference, and previous coverage of the company.

Product	Timeline
G4 Platinum Pediatric Indication	CE Marked; PMA supplement filed with the FDA in 1Q13, approval expected in 2H13
Animas Vibe insulin pump with G4 Platinum CGM integration	PMA filed with the FDA in 1Q13; potential 4Q13 or early 2014 launch (Animas' discretion)
Dexcom Share (remote monitoring)	PMA supplement filing in 3Q13; 2014 launch
Tandem pump with G4 Platinum CGM integration	PMA filing before the end of 2013
Updated G4 Platinum algorithm	FDA filing in late 2013/early 2014; 2014 launch

Dexcom/Edwards GlucoClear 2	CE Marked, additional European studies in 2013; US timeline unclear.
SweetSpot Cloud-based Data Management Platform	As of 3Q12, goal was FDA submission by end of 2012. We have not been updated on SweetSpot platform progress since.
Qualcomm Remote Cloud Computing Platform	2013-2014 (Launch)
Gen 5 sensor with smartphone integration	Late 2014-2015 (Launch)
Gen 6 sensor	2017
Roche insulin pump with CGM integration	Partnership Dissolved
Insulet OmniPod with CGM integration	Partnership Dissolved

QUESTIONS AND ANSWERS

Q: You said 20 million covered lives for the 12 payers in type 2. That's in addition to whatever covered lives you have for Cigna or Anthem, or including?

A: That's in addition to. That's just in the last 12 months. We've seen that improve obviously. We knew that Cigna and Anthem had established coverage, but this is new. This is primarily the responsibility of our managed care group, and they've done an outstanding job of improving that policy coverage.

Q: Do you want to venture a guess as to what percentage of your sales is going to type 2?

A: At this point it would, still in my opinion, be de minimis.

Q: How is the change in the sales field force going - the reorganization, the expanded head count, and the clinical associates being shifted over to territory people?

A: With the exception of just a couple slots, we've filled the entire organization - the additional 20 territories that we had outlined. Our sales reps that have converted over are all doing extremely well. The talent available to us with our business and our product has been outstanding. We've added some absolutely fabulous people who have hit the ground running. Most all of our territories are performing the way we expected them to, so we're off to the races.

With respect to the clinical aspect, our patient care team is what we had put together to replace those clinical specialists in the field. We have expanded that from four to twelve people who work the phones continually and have a very, very structured program. That includes contacting our new patients and sometimes taking educational calls from those who have been patients for a longer period of time versus our normal tech services group that responds to product issues. I can tell you that group is fully staffed and doing very well also. So everything is clicking the way we wanted it to.

Q: Are there any highlights or things we should look for at ADA that would be interesting to Dexcom investors?

A: I think the influence of the artificial pancreas groups - certainly they will be on the podium talking about their experiences. As you know, in that environment, everything is kind of geared towards the artificial pancreas arena from the scientific community. That for us will probably be the highlight, especially given that we're in 22 out of approximately 25 artificial pancreas programs around the world. Outside of that, I'm not aware of anything in particular that you should be looking for.

Q: You talked a little bit about the pediatric rollout. I think we're at 15% to 20% of your installed base is pediatrics. What should that be say in a year from now?

A: 30%.

Q: What does it take to get there? Is it just getting in front the endocrinologists? Does it take staffing? What movement on the part Dexcom does that require?

A: First of all, to get an approval. Beyond that, just to get in front of them. Luckily, it's a rare situation in which there is a solo practitioner with a pediatric endocrinology practice - they're generally grouped with young adults or adults are at least in close proximity. So that won't require adding new bodies to our group beyond what we've done in the reorganization. It's just the ability to go call on them on a routine basis and talk about the benefits of the G4 Platinum. Many of them know it already. But like anything, the more shots on goal, the more pucks go in, and so this will be the first time that we've been able to call on that sector.

Q: Can you talk about utilization trends or patient retention with the G4 Platinum?

A: No, not really. I think we need at least a quarter or two to truly understand it. We have stated earlier, and it has been truly anecdotal, that it looks like patients are using the product more frequently. We are certainly reading the blogs, and that is the best metric we have right now. There's great utilization from that standpoint and greater confidence in the product. But beyond that, it's hard to come up with quantitative metrics on that.

Q: Can you talk about the next-generation algorithm for the G4? What does that bring you in terms of improvement in MARD or other features?

A: Overall, it's going to improve the MARD by about two points from the 40-400 mg/dl on days one through day seven. That's important, because if you look at what the folks at Boston University and Mass General have shown with the current G4 Platinum, they're at 10.8%. What we published with the FDA for the G4 Platinum was a 13% MARD. So if we could get down into that overall range of around 11%, we would be sub-10% at some point during the week - as you know, Dexcom sensors get better over time. So day four is better than day one and day seven is usually as good as day four, if not better. So we're excited about that opportunity to improve the outcome of that.

Q: When would we expect this new algorithm to come?

A: We hope to file it certainly in the fourth quarter or early in 2014, and it would come sometime after that. And as Terry said earlier, that is really an accuracy enhancement for us. So we don't have any real launch plans to share with you on that, but that will come out and be approved sometime next year.

Originally, we developed part of this algorithm as part of an artificial pancreas project. And then like everything else we do, we expanded that. If it's good enough for that project and we get comfortable with it, it's certainly something we want to incorporate for everybody. So that's how it evolved over time and we got excited.

Q: You've gone through the G4 upgrade. How many of the customers are left to upgrade, and did you have a lot of the $399's this quarter?

A: We had a good number. It wasn't unexpectedly high or low; it was a piece of it. It had a little bit of a negative impact on margins but not a whole lot. We've seen that quite a few have upgraded. What we've also seen is a lot of them are waiting until they're out of warranty because they want insurance to cover that purchase of the new system. So while the $399 upgrade is appealing to a number of people, there are a lot of people who manage their diabetes dollars very closely, and they're waiting to where they can get the upgrade.

What we've also noticed is that customers on the Seven Plus side are bleeding through every sensor they have in their closet and everything they have on their shelf. And their reorder numbers are actually lower than what we've experienced historically because they don't want to upgrade with any Seven Plus sensors sitting on the shelf. We're seeing a rapid conversion in our sales numbers to Gen 4 sensors, probably faster than we've converted on the hardware side as people are using up the stock that they have.

Q: As you look at gross margins, do you still think the peak on the disposable at 70-75% by the end of this year? And then where are the receiver and transmitter margins today, and where do you think those can go?

A: We're never going to have fabulous electronics type margins on the transmitter and receiver. We don't build enough of them at this point in time. We've had a lot of discussions with some of the cell phone

manufacturers. And one of them told us that they design a SKU, they build 55 million of them, and then shut down the line and never build it again. We can't quite do that and get those kinds of efficiencies. We're very convinced that we can get our Gen 4 sensor margins up in the 70-75% range, and we can even go better than that as volumes permit us over time. The hardware margins will be what they are. They're less than those. They won't ever get to 75%.

Q: Should we think about those margins floating around the 50% range?

A: Yes, that's fair.

Q: Could you talk about growth in shipments to new patients in the quarter?

A: The new patient pattern is consistent with what we had during most of Q4. We do have upgrades. We've always had upgrades and they've always been a reasonable part of our sales. But when you have a lot of new patients coming on as well, we really don't have any numbers to share today. It's been very strong.

Q: In terms of the sales force reorganization, have the reps been able to go deeper into existing accounts, or you're finding the reps are able to open up new accounts?

A: What I've seen is that our guys are going a lot deeper into a lot of accounts where they've been before - that's because of the performance and the acceptance of this product by the patients that a lot of our long-time physicians are seeing. As they prescribe Gen 4, the reaction they're getting is 'Oh my gosh, this thing is wonderful,' and they are prescribing a lot more. We're getting broader coverage as well. But my observation, anecdotally since I don't have numbers sitting here, is we're going a lot deeper with our existing physician base.

Each year, we target a particular message. As I indicated in my prepared remarks, "CGM First" is the message of 2013, and then outreach - patient-to-patient communication. But within the "CGM First," we are beginning to see traction. I've mentioned that was anecdotal as we get information back from the field force. But certainly, they're spending much more time in each office than they historically have because the physicians are willing to give them more patients.

Historically, it has always been a pump-centric type of environment in which they had to operate, and we're moving the needle on that. We haven't moved it dramatically, but we are moving the needle. So as a result of that, they are spending more time and going deeper into each of those accounts. In many of these accounts, there are multiple endocrinologists - not every single endocrinologist in a particular group practice would necessarily be prescribing any technology for that matter, let alone CGM. So they are also broadening even within a group practice of endocrinology to call on more physicians.

In relationships with our partners, we oftentimes call on high insulin prescribing physicians who are not endocrinologists. You could certainly think that they were diabetologists, but we're beginning to see scripts come in from those as well. And that's a little hard to make a judgment, how much is coming in from patient to patient or how much is coming in from a referral from either a Tandem or an Animas or even Roche partner.

Q: On utilization of G4 Platinum, is it fair to assume that it's stable? It's not going up or down?

A: At the very least, it is stable.

Q: Last quarter, you said 60-65% of your startup kit sales were to new patients. For this quarter, was it the same or higher?

A: I don't have that number with me. I think patterns are pretty consistent, so I'd say it's probably close to the same. We don't have that number sitting here.

Q: For reimbursement for type 2 CGM - you obviously had help in the past from the JDRF. Is there a society like the ADA or any other independent group that could help drive CGM reimbursement for type 2s - that your managed care group could get help from?

A: We look to the ADA from that standpoint because remember - ADA as a professional organization is inclusive of both type 1 and type 2, where JDRF historically has been more towards type 1. Every day in the

United States, 10,000, Americans turn age 65. So you can say 65 is the new 55, and what does that mean? It means that we've got a lot more patients that are living longer and therefore developing type 2 diabetes. That is something that ADA recognizes and has to embrace. It used to be that if you got to age 65 and you had type 2 diabetes, or even type 1, you were lucky, and you certainly would have all of the challenges. I don't think that's the situation whatsoever anymore. So it is something that they recognize. There's got to be intervention and they're helping drive that.

Then you look at some of the things I've talked about, like glycemic variability. The amount of information that is being published in the literature about the role of excessive hyperglycemia that is impacting and creating some of these economic costs - the payer system is looking for ways to reduce that. They've made all of the connect-the-dot assessments from that standpoint. So I don't think we need a particular driver. I think more than anything, we need more peer-reviewed, independent studies, and those are ongoing and they will all be published over time and we'll be able to track them.

Q: If we see the Animas Vibe approved in September or October, would there be any reason that they would delay that rollout until next year? With the filing now in, could a fourth quarter approval mean a fourth quarter launch?

A: It could. But again, this is a decision that needs to be made by Animas. And just like we've commented in the past, where we would potentially choose not to launch a product in the fourth quarter with a fourth quarter approval, the fourth quarter for Animas or for any of the pump companies - just like Dexcom - is the biggest quarter. So I would guess if that approval came late third quarter or very, very early fourth quarter, they would probably launch it. But to be honest, if it comes in the middle or latter half of the fourth quarter, my guess is they would not want to pull their people out of the field and not want to disrupt their selling efforts in Q4 and would probably defer to a first quarter launch.

Q: Where do you see your current CGM share in the US?

A: I don't have an answer. Part of the problem is that we don't publish our numbers. The other company doesn't publish their numbers. If we look at independent surveys, if you look at dQ&A, as an example, from Close Concerns, it has us at almost 65% share in the US. I don't believe that for a second. The responders to that particular survey are what we call super-users. And yes, we probably have that kind of share, but that's not the broader group. I think there's another bank that has published data based on a survey. And again, it puts us a little over 50% share. It's a tough question and our people see that. I always caution them put your filters on because surveys are - like anything else - dependent upon the body of the responders. But it's somewhere in that neck of the woods. It's certainly between and 40% and 60%. That's about as close as we can get it.

Q: Do you have any thoughts on Medtronic's PreciSense, the dual-sensing CGM that they were developing? Are you all hearing about it in the marketplace? Is it dead? Do you see it on the competitive landscape?

A: I don't really know a lot about it. I certainly don't think it's dead. I think that they presented some data about their long-term intent with it to use that as part of a redundancy for an artificial pancreas. I don't know where it's at developmentally. Outside of that, they were at the NIH meeting as well. And so we'll see, but I don't know where they're at with that.

Q: Just on distribution, you've added 20 [territories]. Where do you stand now in terms of your reps? And then where do you plan to be by year-end?

A: We're done adding for the year. When we had the first quarter call, we said we were going to go from 48 to 68 territories, and 68 is where we're going to stop through the end of the year, barring some incredible growth spurt. But that's our plan as we sit here right now, so that's where we are today and that's where we'll stand.

Q: As you've been scaling up the manufacturing on the G4, are you able to make it? Are you running into any problems? Just in general, how is that going?

A: It's going fabulously. Our manufacturing team has done an incredible job with this launch. My favorite email to send them every week is my yield report. These guys are doing a great job with sensor yields. It's been super.

Q: On the 10-day label, I was just wondering if that's something that could still be out there with the 10-day label or shut off, or what do you think about that these days?

A: It is still out there. And I can tell you that in many of the studies that we do, particularly the ones we do internally, we're running them all now 10 or 14 days, even if we just take the data and cut it off at 7 days. We're running them longer so we can get a sense of how that sensor will perform from a physiology perspective within our patients and when that cutoff point would be.

I think over time and as we've discussed this as a team with respect to shutoff, the way we would plan on doing that would be to have the algorithm shut the sensor off based on the signal from the electrode on the sensor. When we can see that it's not up to standard, we would have it shut off that way versus having a fixed shutoff at a point in time. That's what we think is the best ultimate long-term solution. We will certainly not look at that as part of the current Gen 4 system and not in the next algorithm that we'll file. We'll take a look at it after that.

Q: So maybe in G5?

A: G5 or G6, we'll see.

Q: What is the timeline on the G5?

A: The FDA has been working with us very diligently to define how we can get to a mobile platform and identifying all the risks and all the things we have to do to mitigate those risks. This is very much an ongoing process. We've heard from the Agency on a number of fronts that they are very comfortable with the device making a jump straight to a phone without something in between or without a medical device around it with all the mitigating factors. So we're working with them to better understand it.

That's the beauty of the Share system. We're going to have a practice run that is not going to be lights out, all of our patients turning it on at exactly the same time, but we'll have the server structure built. We'll learn how to receive the data. We'll learn how to display the data back on the phone. The receiver is still the primary medical device. So with respect to an approval path, that's something that the FDA can comprehend and that we've made them comfortable with. We're excited for our first foray there, and we'll see how it goes.

With respect to the applicator and the other elements of Gen 5, we have made the decision. We're going to keep manufacturing the same sensor when we go the Gen 5 platform. We don't need to change the sensor at all. And with respect to the other hardware elements, we'll pick the right time when we cut all those into manufacturing. While we don't have a timeline, we've got about five enhancements and different indications to launch over the next 12 to 18 months. That will keep us very busy. Gen 5 will come after that.

Q: Can you help me understand the benefit of this Share platform? It's almost a baby step for your Gen 5 in terms of getting to the mobile platform. Is it how we should think about it?

A: Absolutely. From an operations and an internal perspective, yes. I can tell you from a customer perspective, it's much more than that. I was discussing it with a physician this morning, and the physician's reaction was a huge wow. Kids are going to be able to take this to school and plug it in the back of the classroom, for example, and data can go to the parent all day long. It can also go to the school nurse. This will be a big wow for our patients. For the traveling spouse who is on the road all the time who has Type 1 diabetes, the other spouse can watch the data at home and make sure nothing happens. The sense of comfort there is something that's going to be a big deal. And in our minds, as I walk around here and say all the time, that's going to sell more sensors.

Q: I don't know if I'd want my wife to see my glucose levels when I traveled.

A: You can take the receiver out of the cradle. There's a way.

Q: I think J&J has had challenges on the OneTouch. If they've got something going on with the FDA, can they get a PMA approved?

A: It's a different division. That's the Verio, which is with the LifeScan division. Animas is actually a separate operating company. They operate somewhat together as a diabetes franchise, but they're two distinct companies. The warning letter on Verio went to LifeScan, not to Animas.

Q: So the FDA doesn't look at J&J as one big company. They break them up into their operating companies?

A: It's at the operating company level.

Q: You mentioned the split between hardware and sensor. I was wondering if you could give us any color on the split within sensor revenue of Seven Plus versus Gen 4.

A: No, other than that the gen 4 was substantially more.

Q: If you speak to your competitor, Medtronic, they claim to be making progress with the FDA on the Enlite sensor. I was hoping to get a sense from you guys of what you're hearing in the marketplace in anticipation of the Enlite sensor with the low glucose suspend. The way they talk about it, they actually say they think it's negatively impacting their diabetes business now because patients are waiting for this device to be approved. I was wondering if you had any comment there.

A: I look at what's going on in Europe where the device is available, and certainly Animas and J&J have made public comments that they're growing 30-50% in markets in Europe where the Vibe has launched in direct head-to-head competition with the Veo system, so they don't seem to be too worried about it. I think here in the US when we talk to the folks, both at J&J and certainly at Tandem, they seem to be cannibalizing the installed base. I'm not sure patients "are waiting to go to this other system."

Last year our Medical Director, David Price, got up and spoke and talked about all the ways you can manipulate data from a glucose sensing standpoint and that we never do that. We always only do prospective analysis. And Medtronic got up at that same meeting and said that the Enlite was about 13% MARD. We tested the heck out of it. We couldn't get it to perform that way. And then Dr. Russell and Dr. Damiano presented results and said they couldn't get it to perform that way either. It was closer to 18% than 13%. And then fast forward to ATDD earlier this year. Medtronic gets up and says the Enlite is, on a prospective basis, closer to 18%, which is consistent with what our experience with it is and out in the field experience.

I think from an FDA standpoint, you've got a product that's been in before the FDA. They've seen our data, which is part of our strategy. And now they're looking at something that can have an MARD for a sensor in order to shut off insulin delivery of somewhere close to 18%. It's a conundrum. It's a conundrum for the Agency to say what are we going to do here. Now most recently, you're hearing Medtronic talk about Enlite 2 and other things predictive, so I don't know. I don't think that there's a huge pent-up demand in the market. I know they're suffering, but I don't think it's related to waiting for the Veo system.

Q: With the new algorithm for the G4, how does that affect your pacing on the pipeline and the progression to the G5? Do you do more on the G5 and come out with a G5.5, like you did on G4 because of the FDA process?

A: One of the things we believe we've been successful at is segmenting some of the improvements in our product and not linking everything together. One of the issues we had with Gen 4 in launching it, as you just said, it became Gen 4.5 because we took the membranes from the Gen 5 system and moved them back when it took so long to file. We're going to do our improvements in smaller increments and file them and not necessarily interlink them.

We'll file the algorithm and it certainly will run with Gen 4. And it may in fact be the algorithm we launch Gen 5 with. I don't have the answer to that yet. But we can file the algorithm and then we can launch it anytime that we're ready. That's how we look at it, and that's how we're going to treat this. And all these things - we're trying not to link them all together. We want to do them in the order that best meets our business needs.

There could be a Gen 5.5 algorithm. But in all reality, that will depend upon the timing of the Gen 6 sensor. And if a Gen 6 sensor comes, that algorithm would be completely different anyway. We don't want to do things that aren't going to lead to increased profitability. And this algorithm, we believe, will lead to increased profitability because, again, it makes the system more accurate and more reliable for our customers.

Q: You mentioned profitability. We've seen a growing number of companies raising money. This question has been answered or asked of you guys on past conference calls. From a non-cash standpoint, you're making very good progress towards profitability. Can you talk about that in general and how comfortable you feel with the balance sheet and where you feel like you sit right now?

A: If somebody were to ask me what my favorite number is that I recited in all these numbers, it would be six. That would be the $6 million that dropped to the bottom line on $9.2 million in increased sales. Our operating income cash loss was only $3.7 million this quarter compared to a number closer to $10 million a year ago. And our working capital progressed exactly the way we wanted it to. We have debt capacity of close to $30 million that we can take down later this year if we needed cash. And we've made a commitment internally to ourselves, to our management team, and to our investors that we're not going to go raise more equity money. We're going to turn this thing where it needs to be. And with growth like this, we believe we can do it. So that's our plan today.

-- by Adam Brown, Kira Maker, and Kelly Close