Closer Look

MEMORANDUM

Dexcom 1Q14 - Product sales rise 68% on challenging comparison; Share and Professional Use Indications in final FDA approval stages - May 2, 2014

Executive Highlights

- In 1Q14, Dexcom recorded $47 million in product revenue, a strong 68% year-over-year gain on a challenging comparison to 1Q13. Sales were down 9% sequentially from 4Q13.
- On an exciting note, the pending FDA filings for Dexcom Share and a professional use indication for the G4 Platinum are "in the final stages of review." No updates were given on the Tandem or Animas integration partnerships.

Dexcom reported 1Q14 financial results yesterday afternoon in a call led by President Kevin Sayer and Terry Gregg. This report contains the call's top 10 highlights, followed by a pipeline review and Q&A.

Financial and Business Highlights

1. In 1Q14, Dexcom recorded $47 million in product revenue, a strong 68% year-over-year gain on a challenging comparison to 1Q13. Sales were down an expected 9% sequentially from 4Q13.

2. Absent non-cash charges, Dexcom had a net loss of $500,000 in 1Q14, a noticeable improvement from 1Q13's cash-based net loss of $3.9 million.

3. Operating expenses in 1Q14 rose 54%, a focus of management's prepared remarks and Q&A. Management cited the near doubling in sales reps (48 to 90), other personnel investments, and far more R&D activity in 1Q14. This reflects operating leverage (expenses rose less than sales) that was impressive to see.

4. The international business "continues to exceed expectations" and grew faster than US sales, albeit from a much lower base - the international business is about a tenth the size of the US business.

5. Management has been "very pleased" with pediatric sales following the FDA's February 4 approval of a pediatric indication for the G4 Platinum. However, the ramp will take some time as Dexcom reps educate pediatric endocrinologists on CGM. There is a bit of "baggage" in our view that is great to see declining over time as doctors realize the benefits of CGM and are not thinking of the earliest model, the Dexcom STS, from 2006. We still believe there are major policy problems, like reimbursement, that are hampering doctors from moving faster.

Regulatory, R&D, and Competitive Landscape Highlights

6. The pending FDA filings for Dexcom Share and a professional use indication for the G4 Platinum are "in the final stages of review." The Share device is expected to be $400, quite a reasonable price in our view; Dexcom is prioritizing reimbursement work as it understands well this is still unaffordable for some.

7. No timing update was shared on the Animas and Tandem pump integration partnerships. Per Tandem's 4Q13 call, a filing was expected in 2Q14. A 2014 launch of the Vibe was expected per Dexcom's JPM 2014 presentation. We are still hopeful.

8. Dexcom continues to work on both the Gen 5 and Gen 6 products, though no product details or timing updates were shared, in keeping with Dexcom's more recent stance of sharing less information. Management did highlight the positive potential impact of the FDA's new expedited access program for medical devices, announced on April 22 (read our report).

9. In line with the quarter's 68% growth, management does not believe that competition from Medtronic has impacted the business. Management is closely watching Abbott's Flash, but does not view it as a direct competitor.

10. CEO Terry Gregg spoke about the artificial pancreas, highlighting that cost and complexity may limit uptake (presumably at least initially). This makes sense given that reimbursement may be challenging at the start Dexcom is fully involved in closed-loop research, and also prioritizing connectivity, improved accuracy, and working to eliminate fingersticks for its standalone products.

Table of Contents

FINANCIAL AND BUSINESS HIGHLIGHTS

1. Dexcom recorded $47 million in worldwide product revenue in 1Q14, a very strong 68% year-over-year increase from 1Q13. The result was Dexcom's second-highest quarterly revenue ever, only behind last quarter's record-high $51 million. Notably, the 1Q14 result was on a very challenging year-over-year comparison, as sales grew 49% in 1Q13 - impressively, the growth acceleration (49% in 1Q13 to 68% in 1Q14) comes on nearly double the base of sales ($28 million in 1Q13 vs. $47 million in 1Q14). The company is on a roll in terms of getting the technology out to more people and we know that key medical centers must be helping significantly - the consolidation among HCPs is helpful, of course, to Dexcom. Sequentially, worldwide revenue in 1Q14 fell 9%, a result that improved upon 1Q13's sequential decline of 12% and 1Q12's sequential decline of 11%. This of course stems from the seasonality typically observed between 4Q13 and 1Q14 (i.e., deductibles reset, flexible accounts are unfunded, and thus patients pay more out of pocket).

- **Management did not change the 2014 product revenue guidance issued at JPM 2014: $205-$225 million (31%-43% growth from 2013).** The guidance builds in Dexcom Share and the pediatric indication, but no partnership revenue from Animas and Tandem. In the 4Q13 call, management underscored that the first quarter is the slowest for Dexcom's business - 1Q13 represented only 18% of Dexcom 2013 sales. We'd note that 1Q14 revenue of $47 million represented 21-23% of the $205-$225 million full-year guidance, meaning Dexcom may end up readjusting the guidance upward if 2Q14 goes well.

Worldwide Product Revenue							
	2012	**1Q13**	**2Q13**	**3Q13**	**4Q13**	**2013**	**1Q14**
Product Revenue (millions)	$92.9	$27.8	$35.5	$42.5	$51.3	$157.1	$46.7
Year-over-Year Growth	41%	49%	65%	102%	62%	69%	68%
Sequential Growth	-	-12%	28%	20%	21%	-	-9%

2. Similar to the 4Q13 call, Dexcom's improving operating performance was a focus of management's prepared remarks. Absent non-cash charges, Dexcom had a net loss of $500,000 in 1Q14, an improvement from 1Q13's cash-based net loss of $3.9 million. The cash-based net loss of $500,000 was down from 4Q13's cash-based net income of $6.7 million, though 4Q13 had record-high sales and fewer transmitter replacements (see below). Dexcom could be close to GAAP profitability in 2014, but with the

significant recent increase in non-cash expenses, "it's going to be very hard." Said President Kevin Sayer, "We focus very heavily on the cash profitability number - adding more to the bank account then we are spending."

- **Dexcom's product gross margin was 64% in 1Q14, a key improvement from 55% in 1Q13, though down slightly from 4Q13's 66% (a record-high quarter for revenue).** The first quarter of 2014 saw an increase in replacement transmitters, which shifted the product mix to 32% durable sales of receivers/transmitters (~50% margins) and 68% consumable sales from sensors (~70-75% margins). Dexcom continues to anticipate that margins will improve as volumes increase, particularly consumable product sales.
- **Average selling price (ASP) has remained consistent** at approximately $70 per sensor and $850 for the starter kit. Standalone transmitter sales are ~$400-$500 depending on the payer mix.

3. Operating expenses in 1Q14 totaled $42 million, a 54% rise that was a focus of management's prepared remarks and Q&A. SG&A expense rose 52% to $28 million, while R&D expenses of $14.5 million increased 56% year-over-year. Said President Kevin Sayer, "The issue with OpEx as you compare to last year is that we are a lot bigger than a year ago. There is no other way to describe it." We were impressed that the expenses rose less quickly than sales and we expect to see more operating leverage in the future.

- **Management emphasized the near doubling in sales reps, from 48 at the end of 1Q13 to almost 90 reps by the end of 1Q14.** Dexcom's internal headcount has expanded in other areas as well (reimbursement, marketing), and management noted that the additions have been "extremely successful" in developing more and better direct contracts with payers, strengthening relationships with distributors, and laying the foundation as CGM to be covered as pharmacy benefit. The upside of the latter was not discussed. This is all very good news from a patient perspective that such expansion has gone well - kudos to management as such growth can be very hard to manage.
- **On the R&D side, the rise in expenses was partially attributed to far more activity this year than one year ago**. Last year, Dexcom had no major clinical studies and no open submissions with the FDA. In 1Q14, by contrast, Dexcom was testing new sensors, new algorithms, enhanced labeling, and had a number of pending submissions with the FDA (see R&D pipeline review below). Management emphasized Dexcom's continued investments in the product pipeline to increase accuracy, improve connectivity, lower costs, and move towards the ultimate goal of replacing fingersticks.

4. The international business "continues to exceed expectations." The call refrained from specifics; while 1Q14 international sales grew faster than US sales, this would be expected from the much lower base - we're very impressed, actually, that the US sales are growing nearly as fast from a base we estimate as ten times larger. We estimate that 1Q14 international sales were ~$4 million, which would represent ~9% of 1Q14 product revenue and ~80% growth (vs. 67% growth in the US) from our estimate one year ago. Dexcom has done "extremely well" in Germany, Italy, Sweden, and the Netherlands, which are the "backbone" of the company's European business. Dexcom also entered Canada in late 2013 and "did very, very well in 1Q14" (both the standalone G4 Platinum and the Animas Vibe). Said management, "Canada has really been a positive launch for us."

5. Management has been "very pleased" with pediatric sales following the FDA's February 4 approval of a pediatric indication for the G4 Platinum. Dexcom has seen the percentage of pediatric orders continue to grow, and approximately 20% of current sales pipeline opportunities are pediatrics (no historical baseline was given, but we assume this at least doubles what Dexcom has seen). Management said on the call that "approximately 10-20%" of the current patient base is pediatrics, though we'd note that the 4Q13 call in late February estimated that 8-10% of Dexcom's installed base was pediatric patients (<18 years). As a reminder, the company's long-term goal is to have ~30% of the installed base as pediatrics, consistent with the overall type 1 population in the US. The goal is to bring the current pediatric base to ~20% by the end of this year.

- **The call emphasized that the pediatric ramp up will not be immediate - it is not like "flip[ping] a switch" and there "is lots of work ahead."** While many clinics are excited, management believes it will take time to properly educate HCPs, parents, and caregivers about the benefits of CGM and Dexcom's G4 Platinum. Said President Kevin Sayer, "We have got to be sure that they understand the basics of CGM in order for them to be successful. It is literally a step back in time." The same reps are calling on both adult and pediatric centers, though the latter really represent "new turf" for Dexcom's reps (historically, the company respected the product's label and did not call on these centers). Even if a pediatric center has prescribed a few Dexcom CGM systems, most are not ready to move additional patients until they gain more experience. Added Mr. Sayer in Q&A, "We're kind of starting from scratch."

REGULATORY, R&D AND COMPETITIVE LANDSCAPE HIGHLIGHTS

6. Notably, the pending FDA filings for Dexcom Share and a professional use indication for the G4 Platinum are "in the final stages of review." In Q&A, management specifically added, "We think we're in the home stretch here on Share." The call did not share a specific timing expectation for an approval of either filing. As a reminder, a PMA supplement for the Share remote monitoring product was filed at end of July 2013, and JPM 2014 called for a launch in 2014. A PMA supplement for the G4 Platinum Professional Use Indication was filed in 3Q13.

- **Management said the Share cradle is going to be a "$400 charge starting out of the gate."** We assume this is what patients will pay out of pocket for the Share cradle, as insurance coverage will presumably not be available when the product launches. While not cheap, this is substantially cheaper than Medtronic's mySentry, which launched in January 2012 at a discounted price of $2,400. Management was most optimistic on the potential for Share in pediatrics and patients who travel, but cautioned that it will not bring in substantial revenue. The goal with the product is to sell more sensors.
- **The FDA Warning Letter received in March does not impact Dexcom's pending or future FDA submissions, and responses have already been submitted to the FDA.** As we noted in our report, the warning letter cites administrative deficiencies in Dexcom's filing of medical device reports (MDRs). Within three weeks of receiving the letter, Dexcom had submitted all materials to demonstrate compliance with the FDA's requirements. Management expects to close out the warning letter "in due course." No Q&A came up related to this news.

7. No timing update was shared on the Animas and Tandem pump integration partnerships - Dexcom said that both Tandem and Animas continue to "press forward with final testing, development, and regulatory matters," and Dexcom continues to assist Tandem and Animas when asked. As of Tandem's 4Q13 call, FDA filing of the t:slim with Dexcom CGM integration is expected in 2Q14. We have not heard an official update on the Animas Vibe from J&J in some time; this PMA was filed with the FDA one year ago in 1Q13. Dexcom's JPM 2014 presentation called for a launch in 2014. As a reminder, Dexcom financial results calls will no longer share timing updates on behalf of partners (said management during the 1Q14 call yesterday, "We'll let Tandem and Animas speak for themselves").

- **We wonder how Dexcom will balance the timing of Gen 5 with the commercialization of the G4 Platinum-integrated Tandem and Animas pumps.** If Gen 5 is indeed commercialized in 2015 (the last update we heard), we assume Dexcom would produce two transmitters - one for the G4 Platinum and associated Tandem and Animas pumps, and another for the Gen 5 mobile platform (smartphone app + potential for a small receiver) but we do not have details on this front.

8. Dexcom continues to work on both the Gen 5 and Gen 6 products, though no product details or timing updates were shared. However, management did highlight the positive potential impact of the FDA's new expedited access program for medical devices, announced on April 22. As we noted in our report, the exciting new expedited access PMA program is for breakthrough medical devices that address major unmet clinical needs. This expedited program will feature earlier and more

interactive engagement with FDA staff, a collaboratively developed plan for collecting data to support approval, reduced premarket requirements, and a priority review. Management was cautious in today's call, noting that it remains to be seen if CGM will qualify and to what extent. We believe something like an overnight closed loop system with daytime hypo-hyper minimization would meet some of the program's key criteria: "breakthrough" and "clinically meaningful advantage over existing technology." We do not expect marginal improvements in CGM would qualify. However, it's possible that a CGM with an insulin-dosing claim or factory calibration would meet the criteria - in other words, it seems unlikely that something like Gen 5 would qualify, but perhaps Gen 6 would. Still, whether Dexcom's pipeline products meet the qualifications or not, we agree that the FDA has signaled a desire to get medical devices into the hands of patients sooner - that is unquestionably a positive for the field.

9. Investors probed for views on the competition (Medtronic's MiniMed 530G and Abbott's Flash) during Q&A - management's commentary was balanced and confident. CEO Terry Gregg and President Kevin Sayer emphasized the company's 68% growth in 1Q14, a result that "supports itself" and does not indicate the business is feeling any pressure. Regarding Medtronic, management said there's a lot of "MiniMed 530G noise," but Medtronic pumpers represent a "significant piece" of Dexcom's pump patient base and "they're very happy" with the G4 Platinum (this was not surprising to us; we will be interested to see as Medtronic pumpers reach the four-year mark, who stays with the Revel so that their insurance covers the G4 compared to moving to the 530G and presumably would not have the G4 covered). Executive VP Steve Pacelli did note that Dexcom is "keeping an eye" on Abbott's Flash Glucose Monitoring, though he was also clear in saying that it "is not CGM" (e.g., no hypoglycemia alerts). He shared that it could find a niche in a diagnostic capacity for non-insulin-using type 2s - we agree, though would also note that Flash has potential to expand the continuous glucose measurement market and in fact create a new market for those not as reliant on alarms but who want easy access to blood glucose measurements (see our ATTD and EASD reports for background on the product, which is expected to launch later this summer in the EU - EASD 2014 will no doubt be an important meeting to see this technology). Indeed, Mr. Pacelli was optimistic on Abbott's commercialization of Flash, as it could help Dexcom build the category. In line with Abbott's 1Q14 call, Mr. Pacelli highlighted the expected 2H14 launch of Flash in Europe (accelerated to "late summer" in Abbott's 1Q14 call), the lack of a US timeline for the device, and the expectation for more details at EASD 2014.

10. CEO Terry Gregg's closing remarks were a bit less enthusiastic about the artificial pancreas than we've heard in the past. We took particular note of the highlighted statement below and his view that the "vast majority" of patients will not use an AP due to perceived complexity or cost. Certainly, no one would argue that complexity and cost are key gating factors for closed-loop technology. Still, the statement was noticeably stronger in language than we've heard in the past (and seen in exhibit halls), where Dexcom has quite prominently showcased and promoted its very central role in AP research. His comment certainly signaled full interest in AP research, but also a clear reminder that it is probably not Dexcom's number one priority. This is of course strategically wise, since CGM as an input is so important for patients to be able to benefit from; while Dexcom could obviously be a supplier to so many AP systems, naturally, many pieces of the AP puzzle are still uncertain. Indeed, we'd note the company's near-term focus on connectivity - via Share and Gen 5 - obviously has synergies with the AP, but also enhances the standalone utility of the company's CGM. We see these moving forward and obviously positive as they allow patients to continue to have better and better technology, albeit more incrementally than would probably happen will fully automated delivery.

- **Said Mr. Gregg, "We are not here solely as an accessory to an insulin pump or as a component to an artificial pancreas,** and while we certainly are supportive of the efforts to develop an artificial pancreas, in fact, we are the key enabling component of virtually all artificial pancreas research being conducted around the globe, we believe we also have a duty to support the vast majority of patients who will either not opt to use this technology due to the complexity or will never have access to it due to cost. These patients deserve better tools to manage their glucose levels as well, and we intend to develop products to meet the needs of all patients."

PIPELINE SUMMARY

Pipeline Product	Timeline
Animas Vibe insulin pump with G4 Platinum CGM integration	PMA filed with the FDA in 1Q13. JPM 2014 called for launch in 2014.
Dexcom Share [Remote monitoring via docking cradle, Bluetooth, and smartphone app]	PMA supplement filed at end of July 2013. JPM 2014 called for launch in 2014. In "final stages" of FDA approval.
Tandem t:slim insulin pump with G4 Platinum CGM integration	Per Tandem's 4Q13, PMA filing in 2Q14.
G4 Platinum Professional Use Indication	PMA supplement filed in 3Q13. In "final stages" of FDA approval.
SweetSpot Cloud-Based Data Management System	As of 3Q12, goal was FDA submission by end of 2012. We have not been updated on SweetSpot platform progress since.
Updated G4 Platinum algorithm [MARD improvement by two percentage points; remote software update]	Unclear - The 1Q13 call targeted FDA filing in late 2013/early 2014, with a 2014 launch.
Gen 5 system [Mobile platform, new transmitter, new algorithm, improved applicator, less intricate receiver, G4 Platinum sensor]	~2015 launch, though will likely be rolled out in stages
Gen 6 system [New sensor with goal of reduced or eliminated calibration, insulin dosing claim, interferent blocking]	In 2Q13, received a $4 million development grant from Helmsley Charitable Trust based on milestones over "next several years"; ~2017 launch
Dexcom/Edwards GlucoClear 2 [Critical care CGM]	CE Marked; Edwards working to understand how the system fits into hospitals' clinical workflow

CLOSE CONCERNS QUESTIONS

Q: Has the SweetSpot cloud-based system been submitted to the FDA?

Q: What is the range of productivity for the sales force?

Q: To what extent could sales improve if HCPs were paid more for time spent analyzing results?

QUESTIONS AND ANSWERS

Q: On the comment on transmitters being meaningful for the first time, is that a slow rise or was that due to 1Q13 when a lot of people upgraded to G4 Platinum and got a new transmitter a year later? In other words, should we look for higher transmitter sales for the rest of the year, or was this a one-time thing?

A: We believe that there will be higher transmitter sales over the course of the year. The label was indicated for six months when we initially launched. Our transmitters have been, quite honestly, lasting longer that

that. The rise in transmitter sales has actually been delayed over what we thought would happen. We are expecting that this will continue over the course of the year.

Q: Could you comment on the competition you're seeing from both the Medtronic MiniMed 530G and the Abbott Flash Glucose Monitoring System?

A: If we look at how we did in the first quarter, we obviously did not feel much competitive pressure, either nationally or internationally; we had record sales in both the US as well as outside of the US. That would be about the summation of my comment.

Q: How does your pediatric strategy differ vs. your strategy for adults? I think you mentioned that the rollout will be a little slower.

A: We've all been visiting pediatric clinics, and we're approaching them with the same sales team with which we approach the adult clinics. We haven't been an active presence in those clinics before. We've complied with our labeling by not actively pursuing the pediatric clinics; so, while they are familiar with CGM, there's an education component involved as we get parents, physicians, and caretakers all up to speed and get them used to using the Dexcom CGM. Even if they're prescribed a few, they're not ready to move to prescribing many until they get a little more experience with us. It's kind of like going into a new turf, for lack of a better example. We're kind of starting from scratch.

Q: Did you say that 20% of your patients in the quarter were pediatric?

A: I said that it was 20% of our open pipeline.

Q: As I think of the quarter, historically you have said that you've run around 10% of your patients were pediatric. Did you move off that?

A: We're somewhere between 10-20%.

Q: If we look at the quarter, that was a very impressive durable number, and I think what we're all going to try to find out is how much that is from new patients vs. transmitter upgrade. What type of year-over-year growth did you see in your new patient adds? Is there any type of mix that you might share with us for a revenue component? Of the roughly $15 million of durables, 70% was new patient vs. upgrades, transmitters, receiver upgrades, etc.

A: We will not share new patient changes. For the guidance between upgrades and new patients, certainly on the kids side we've said in previous calls that we typically run into 70%/30% ratio over time. It may fluctuate more one quarter to another based on deductibles. I think this quarter's relatively typical of what we've seen in the past - the increase in the durable sales really relates to more transmitters than a shift in new patients, or upgrades, or anything like that.

Q: But inside that durable number, what is the mix of new patients to the therapy; how can we look at your new patients vs. all of the upgrading of existing customers. How can we breakdown this $15 million?

A: There's a 70/30 split consumable to durable. What we've also said is that we've historically run close to the same split within new patients to upgraded patients - somewhere between 20-30% of any quarter is going to be upgrade patients.

Q: The change in the mix this quarter was because of the increase in the replacement transmitters?

A: Right. The bump up to 32% of durable revenue this quarter was attributable to increased transmitter sales.

Q: Have you seen any change in your attrition rate, and is there anything you'd like to quantify for us?

A: Things look the same as they did at the end of the year. The attrition rates have been better; certainly, the G4 Platinum system is much better than it ever was on the Seven Plus, and we continue to see good reorder patterns.

Q: If we were correct in our modeling, there was probably about $4 million of hardware replacement revenue in the fourth quarter. So, the change in percentage of the total this quarter would suggest something more like $6 or $7 million of hardware replacement for existing patients. Is that in the ballpark?

A: We've given you as much as we're going to give you.

Q: Do you feel that you'll ever get another chance at those Seven Plus patients who have chosen not to upgrade for whatever reason?

A: I feel that we will with some of them. Age segmentation contributes somewhat - some age segments drop off more than others. Some of those who chose not to upgrade may have chosen not to upgrade for various reasons, and some may come back. We see many patients who had dropped off the Seven Plus for years, and then when we launched the G4 Platinum, they came back to us; we count these as new patients since we lost them for a couple of years. I think as we come out with our new technologies that are more accurate, have more connectivity, and are smaller, I think we'll see a lot of patients who we lost come back.

In terms of age demographics, obviously, we continue to push at a level to get reimbursement from the Medicare level. Some of these patients have, unfortunately, moved from having traditional third-party payer coverage to having Medicare coverage. If they're on fixed income, there's been some challenges there. However, we always look forward to the opportunity to better serve them in the future, as we push that agenda at the highest level in Center for Medicare and Medicaid Service and also in Congress.

Q: Can you speak to your gross margin sequentially? Obviously you have made huge progress last year. The volume in the first quarter could have been lower. Where do you see that trajectory over the year? Do we actually get close to that 70% range or can you give us some thoughts?

A: We were at 66% in 4Q13, with large revenue that we hung up there. We're quite confident they'll continue to go up over the course of the year. A lot of that is volume related as we can apply more costs to more supplies that go out the door and as we get our other improvement programs in place. Our target margin for our sensors has always been in the 70-75% range. While we're running at 64% to 66% for the last two quarters, it's pretty obvious that our sensors are there within that range. We just need to look at ways to keep pushing them up. We think we'll get improvements. We're not going to see sequential 10-point improvements like we did last year... but we can see sequential improvements as we go over the course of the year.

Q: Can you give us some rough estimate of what the margin is on hardware? Is it a 10 or 15% difference?

A: It's closer to 50%.

Q: What are you seeing in terms of competition from the Medtronic MiniMed 530G? How have G4 Platinum sales trended in Medtronic pump users?

A: We grew 68% growth this quarter. That would speak to the strength of our business and how well we did. We certainly hear a lot of Medtronic MiniMed 530G noise, but I think our 68% growth supports itself. With respect to MiniMed pump users who use our CGM, there's a lot of them. It represents a significant piece of our pump patient base - they're very happy.

Q: You have pretty good reimbursement in type 2 patients recently. Can you speak to the trends and what you're seeing? Are they increasing as a percentage of your base? Where are they right now?

A: We attempt to get any insulin using patient covered in all the contracts that we enter into, and we have had some good success. Patients with type 2 diabetes haven't become a really large part of our business, but it does continue to grow. I think the most encouraging thing about the type 2 business that I've seen in my travels - in anecdotal stories - is that we've had a huge impact on these patients because once they can see the effects of diet and exercise on their glucose levels, they can make some pretty radical changes that can have very immediate outcomes. I've talked with people in the field who have seen patients with type 2 diabetes go from

an A1c of 10% to 6.5% very rapidly just with changes in diet and activity. Then they get off some of the other compounds. We're very excited about the opportunity and the results it provides. It's just going to take us a while to grow it. It is good, and it will be a great market for us over time.

I would also think that when we look at number of new insulin starts - around 400,000 a year - obviously the majority of those patients have type 2 diabetes that for whatever reason migrated onto insulin therapy. That gives us yet another bolus of opportunities as we look at our product configuration and really build some products in the future, directly for patients with type 2 diabetes - particularly for those on insulin. However, we certainly wouldn't exclude others, and the data suggests that even if you're on oral agents with type 2 diabetes you could benefit from CGM.

Q: How should we think about the progression of expenses as we move through the year, particularly as we think incentive numbers you have been getting, at least on an operational basis. Or should I say at least by an earnings basis by the end of the year? Is that in keeping with what you are seeing?

A: By the end of last year, we were cash flow positive from operations when we dropped all the non-cash charges from our P&L. Our goal this year was to grow that cash based net income at a significantly higher rate than we grow our topline. We see that first quarter going from an almost $4 million loss in 1Q13 to a $500,000 net cash loss in 1Q14 - we hope to see that improve over the course of the year. With a GAAP perspective, when you have a high-end range of $225 million in revenue and 65% gross profits with non-cash expenses in excess of $12 million a quarter, net profitability is not happening this year. That has not been our goal for a while; we would look toward that in 2015, but if the equity compensation number continues to be so high, GAAP profitability may be pushed down a bit. We focus very heavily on that cash profitability number and make sure we are adding more to the bank account than we are spending; we saw that this quarter, so that was good.

Q: In terms of making sure we're modeling this correctly, I believe that most people have you getting EPS profitable by 4Q14 on a GAAP basis. However, I hear you saying we should not assume that given non-cash expenses?

A: If everything were the same non-cash wise, I think we could be close. However, with the significant increase in non-cash expenses that we're experiencing, again due to the stock price and things, it's going to be very hard.

Q: You mentioned a couple of items on the product side. One of them you've been increasingly talking about is this product called Share. Do you have any timing updates? It sounds like it's at the FDA right now, and then subsequent to that, when it does get approved, do you have expectations around whether that could be as positive a catalyst as we've seen in the G4 Platinum and some other advances?

A: It is at the FDA, and we think we're in the home stretch. We certainly won't give a date. The Share is our first venture into connectivity, pairing the receiver inside the cradle with an Apple device and then sending data to secure servers that can be shared with people who can follow your glucose levels all the time. We think it will have a good impact on our business, particularly in the pediatric patients where parents are going to want to follow their children. We've talked to a number of people over the past few months whose child has never been on a sleepover before because the parents don't dare let them leave the house. There will be a big uptick in that segment, and we also think it will help us with people who travel or are away from a caregiver. We see this as a very good use of the product; however, we're not looking for huge changes on our revenue model with this. That cradle itself is going to be another $400 charge starting out of the gate. Our goal with this is to make a system that will greatly enhance our patients' ability to manage glucose, take better care of themselves, and - from a business side - sell more sensors. That's the kind of model that works for us, and that's what we're hoping happens. It won't have the impact that the G4 Platinum launch did, I can quantify that. But it will help us. We have pretty high expectations here. We need to hit it pretty well, but it will be helpful.

Q: Will that will work with the current G4 Platinum?

A: Yes, absolutely. Just buy the cradle and go.

Q: I know it's in partners' hands, but do you have any comments on timing of combined products, either the Vibe or Tandem?

A: We're going to start deferring to the partners on timing. The filings are in their hands so I think we'll let Tandem and Animas speak for themselves.

Q: What percentage of the 800 pediatric endocrinologists have prescribed the G4 Platinum?

A: I couldn't quantify that.

Q: Would it be fair to say that your goal by year-end is to have half of them have written their first prescriptions, or is it closer to say that a majority of them will be prescribing?

A: I think we look at this more as a percentage of the patient base. As we build our model up rather than just focusing on the individual physicians. We want to see the patient base over time move up to 30% of the overall patient base. We would expect the patient base to move from 10% this year to close to 20% and then move up over the next two years higher than that. We haven't gone so far this year as to break it down by physician and clinic.

Q: In terms of the pediatric ramp up, I know it's still early, but do you get a sense that these particular patients will be more likely to use the CGM 24/7 rather than periodically?

A: We think particularly with the very young patients, the CGM will be extremely sticky. That's always been a very good patient group for us, even when the product was prescribed off-label. We know with teenagers it doesn't matter what device or therapy or whatever you tell them, sticky is always a difficult word. However, we do well with them, and they certainly do well on the system. We'll just see how it works over time.

Q: Can you give us your thoughts on the additional data presented on Abbott's Flash Glucose Monitoring System at ATTD 2014?

A: You need to understand that the Flash Glucose Monitoring System is not a CGM. It doesn't provide the patient with real-time information, it doesn't provide them with hypoglycemia alerts, etc. It's not really a direct comparison. We're watching it. With respect to the data, it wasn't quite as good as first round of data but keeping an eye on it.

As we've said in the past, if Abbott finds a niche for this product, particularly in more of a diagnostic frame for non-insulin users, it would be great to have Abbott help us help build the category for once. We've done all the heavy lifting in this category for years and years, and it'd be great to have someone else come in and help build a category that we could come into as a fast follower. We're keeping an eye on it.

I don't think anybody has seen much of the product itself yet, so it's a little bit early to tell. They've stated publicly that they expect to launch it in Europe in the second half of the year. They've given no US timeline for a launch in commercialization. I think we'll know more, maybe by EASD this year or in the latter half of this year.

Q: Could you comment on utilization trends. The last two quarters we've seen strong utilization trends, and we wanted to see if they were persisting? How should we think about utilization trends evolving over the next few quarters? As you brought up, you have pediatrics, which you would think use the sensors more frequently. Share could contribute to your utilization. Where can we get to with utilization, ultimately, as all these products with extended indications hit?

A: You have to be careful when look at utilization trends because, remember, patients are probably wearing it longer than seven days. Even if patients are wearing it all the time, you're still not going to have patients wearing four sensors per month. So, what we've said with the G4 Platinum over the course of the last 18 months has been what we've seen as a combination of more patients wearing it all the time and a reduction in attrition. However, that doesn't necessarily mean that all patients are wearing, for example, three sensors in a

month or three-and a-half sensors per month. You have to be really careful trying to expect utilization, meaning sensors per month, to go up in any meaningful fashion.

We have moved the buckets of patients where before a patient might wear it periodically - one sensor a month and take a break - that patient may be wearing two or two-and-a-half sensors a month because they're wearing it all the time. You can't expect utilization in that sense to keep rising because the life of the sensor will allow for longer wear. What we've said is that attrition trends remain very positive and patients are continuing to use sensors.

The average as a whole for sensors used per month per patient has gone up. However, we think it's probably just patients are having a better experience overall. We have not seen a reduction in the amount of days people use it across the board. We know people extend the wear.

Q: Will there be anything coming out at ADA from you, or from the artificial pancreas, that we should be paying attention to?

A: We have about eight poster presentations at ADA. We'll be very busy. Please come and take a look at them. However, we'll keep that under wraps until we get to the conference. With respect to the artificial pancreas, there will certainly be a lot of discussion about that. Again, it'll be programs we're heavily involved with, with groups that are seeing tremendous results and measurements from our CGM to drive the success of these programs. There will be a lot of news. It will be a very busy show for Dexcom; you'll hear a lot about us there.

Q: In terms of operating expense growth or excluding noncash equity, what was the growth?

A: We said last year that it would be a 10% to 20% growth on the R&D side on the cash side, and we said that we'd try and keep SG&A around 20% on both cases. I'll be very candid with you: We looked at opportunities to spend money to finally grow through the future. As you heard about the build-out of the commercial team over the past 12 months, that's a lot more than a 20% increase. We've managed to keep that down in the 20% range because we haven't spent very much on the G&A side. But we'll continue to make investments where we think it's going to grow our business, and where we need to spend. For expected growth, we'll stick to that guidance now. We'll take a look at where we are in six months and give you a little bit more. However, if you just go back to Q4, the growth from Q4 is very much dialed in to the expansion of the sales force for the fall quarter and those efforts that we undertook on the R&D side. The growth of the R&D expense is very much tied to the share-based compensation - that was almost 70% of the sequential R&D growth. We're looking at that, and we'll probably give you a little more of an update on that spending once we're six months into the year.

Q: In terms of pediatrics, your long-term goal is ~30% of revenue coming from there?

A: Yes.

Q: Your sequential growth in SG&A spending was a big number. I realize the $2.3 million in came from stock-based comp and the 20 new reps, but did you increase your marketing efforts there or increase costs associated with the pediatric launch in the first quarter?

A: Certainly we have that in there. When you look sequentially, you're talking about fourth quarter to first quarter vs. first quarter of last year. If we're going to compare 1Q14 to 1Q13, you need to go back to my remarks. We had 48 reps in the field at the start of Q1 of 2013, and almost 90 by the end of Q1 of 2014, and all of those were in place early in the year. You've almost doubled feet on the street. We more than doubled the size of our distribution channel management team with respect to payers, distributors, and all the other things associated with getting pharmacy reimbursement over time.

We have build the marketing team up, as well - not to the significance we built up the sales side. Those expenses will probably come more over the course of the year as we do more marketing campaigns and as we run some clinical studies geared toward positioning the product for better reimbursement over time, which won't be part of R&D. So, as you're comparing to last year, think 48 to 90 reps. Think double the number of people on the reimbursement side. That's where the growth comes from on the cash side. If you go from Q4 of last year to Q1, it's probably 20 new reps and a few people on the other side - the growth isn't nearly as much.

I think the issue with the operating expenses as you compare this year to last year is that we're a lot bigger than we were a year ago. We just are. There's no other way to describe it.

Q: Was your international strength largely due to new countries or the same countries growing sales?

A: It's both. We do very well and have a core market, including Germany, Italy, Sweden, and the Netherlands. We do extremely well in Europe and in those four, in particular. The other markets are growing, as well. Those four are the backbone of our European business. On top of that, we got into Canada in late 2014, and we did very, very well in 1Q14 in Canada, both with our standalone CGM and with the Vibe. It has been a very positive launch for us.

Q: Is focus on the portion of pediatric endocrinologists to go out there and to go deep into those physicians, or is it more to take a blanket approach and to reach all of them all by the end of the year?

A: Our focus with respect to compensation is to grow business in total. The biggest reward in our compensation structure is adding new patients to the company. If our reps achieve that through pediatric or adult patients, they're compensated the same. We will watch and monitor and make sure they are going to both arenas, but they are rewarded the same for both. They have, again, very high numbers to meet our expectations. I can tell you these reps are trying to get deep into everywhere they call - and they also call on a number of clinics. They are measured on both. The number of calls they do, the number of physicians they call, and also how deep they go; our term for that is Dexcom Champion. How many Champions do you have, and how many can you create? All of these reps are measured on a number of factors that really meet our overall company and business goals. Our goals are very congruent.

Q: What was G&A and stock compensation in the quarter? Is the depreciation and amortization and stock compensation overall for the quarter - there's not a cash flow op?

A: You'll see that in about five minutes when we file the 10Q. The share-based compensation was $8.7 million for the quarter, and the depreciation and amortization was $1.9 million. The total non-cash charges were $12.1 million for the quarter, which includes accretion, change in fair value for some continent liabilities we have with SweetSpot, etc.

Q: On the pediatric indication, you've provided your strategy. You said that you expect this to ramp a little slower. When do you expect the pediatrics to really gain momentum?

A: I think we all believe that there's significant momentum. In the adult population, they're well informed not only about CGM but also particularly about G4 Platinum because we've been calling on them for last several years. When you go into a pediatric account, it is all new for the sales reps, even if it's co-located with an adult practice. Sometimes we know them but have never called on the pediatric practice. There's a relationship that has to be established as well as a technological understanding.

We're not starting over, but certainly it is not the same type of awareness that you have in an adult population; all that takes time. It takes repeated business by the sales force to gain, quite frankly, the trust of that physician population which is sometimes a first-time visit. When we went out in the field, from a management standpoint it's amazing what's going on pediatric clinics. In fact, since I've been doing this for so long the most startling thing to me is that they don't understand this. We have got to be sure that they understand the basics of CGM in order for them to be successful. It is literally a step back in time. However, we do expect that to ramp up very quickly.

Our cautionary remarks are just really just making sure that the Street doesn't get ahead of itself in thinking - we don't want it to think that it's just going to be a flip-the-switch launch and within a month or two we're going to have 30 or 40% of penetration in the pediatric market. That's all. It's ramping just fine.

Mr. Gregg: We are awfully proud of what we accomplished. You know that during the course of the conversation, we said nothing about inclement weather having an impact on us. We blew through that, obviously, and overcame that - even when offices were closed, we still had a quarter to stand by. We are very proud of the company. At Dexcom, we say what we are going

to do, and then we execute it. That's the best thing I can say about a company when it is performing at this level.

--by Adam Brown, Hannah Martin, and Kelly Close