
Ascensia announces commercial agreement with Dexcom to provide Contour Next One BGM with Dexcom G5 for Medicare patients - July 11, 2017

Executive Highlights

- Ascensia Diabetes Care [announced](#) a commercial agreement with Dexcom to provide the Contour Next One BGM for Medicare patients that go on the Dexcom G5 CGM. The highly accurate meter is a major win for Dexcom and will be used for twice-daily G5 CGM calibration.
- It's not clear when the "complete" CGM+BGM "bundle" will start shipping to Medicare patients, though this agreement knocks down another perceived uncertainty in the Medicare commercialization process.
- Based on previous coverage and today's news, CMS will pay Dexcom ~\$2,981/year to provide: G5 sensors and transmitters; a G5 receiver; Ascensia's Contour Next One BGM; and 60 test strips per month (two per day for calibration).
- With this deal, Ascensia gets a recurring revenue model in an area with significant growth potential and likely little internal marketing/distribution burden.

Yesterday, Ascensia Diabetes Care [announced](#) a commercial agreement with Dexcom to provide the Contour Next One BGM for Medicare patients that go on the Dexcom G5 CGM. The meter will be used for twice-daily CGM calibration, a win for Dexcom to get one of the most accurate meters on the market. The announcement did not share timing on when the "complete" CGM+BGM "bundle" will start shipping to Medicare patients, but we now know it will include:

- G5 sensors and transmitters;
- G5 touchscreen durable receiver (first [shown at ADA](#) - super durable to last three years, per CMS' Part B requirements);
- Ascensia's Contour Next One BGM; and
- 60 test strips per month (two per day for calibration).

Dexcom must provide the BGM+strips as part of its G5 Medicare offering, per the Medicare Part B determination ([January](#)) and subsequent "therapeutic CGM" coverage criteria ([March](#)). The BGM+strips component of CMS coverage has been a key area of perceived uncertainty (at least from investors), and we hope this means yet another administrative hassle has been cleared.

Still, we're not sure what the timing or status is on a full G5 Medicare launch. As of [Dexcom's 1Q17 call](#), over 10,000 Medicare patients were waiting to get claims processed/reimbursed for G5, as "final" "local coverage decisions" were still pending. At the time, management hoped this would wrap up before the end of 2Q17, though it was unclear from today's press release if it has - Dexcom management has not positioned the BGM component as a key roadblock to a launch, though clearly this deal will help. We expect to hear an update in Dexcom's August call; the company is currently in a quiet period and could not comment today.

On the pricing front, Dexcom will be paid ~\$2,981/year to offer CGM to Medicare patients, including \$236-\$277 per durable receiver and a monthly price of \$248.38 for sensors, transmitters, and the BGM+strips. We assume Dexcom will buy the supplies from Ascensia and ship the meter and strips to patients, though this is not clear from today's announcement. The pricing likely leaves a pretty narrow margin for both companies, though it's unclear what Dexcom is paying Ascensia. If Dexcom is buying 60 strips at a wholesale \$0.25/strip (our complete speculation), that works out to \$15 per month and \$180/

year per patient. As noted on [Dexcom's 1Q17 call](#), the business model changes under Medicare, as upfront revenue will be ~50% lower than for Dexcom's commercial patients. The real business impact, according to management, will come from having a large base of Medicare users (e.g., "30,000-40,000") with the monthly ongoing revenue for supplies.

For Ascensia, this deal is clearly a win, giving it a recurring revenue model in an area with significant growth potential and likely little internal burden for marketing/distribution. Ascensia is coming off a flurry of recent partnership announcements, including Insulet ([Dash PDM integration](#)), Voluntas ([Insulia titration app integration](#)), and Glooko ([platform integration](#)). We're glad to see the company doubling down on connectivity and partnering within the ecosystem - it clearly recognizes the value of BGM will evolve in an era of CGM and titration apps. Plus, Ascensia will need to shore up business from the lost Medtronic pump partnership, since future Medtronic Bluetooth-enabled pumps will use Roche's BGM ([announced in February](#)).

- **On a yearly basis, Dexcom will get ~\$3,000 for Medicare patients - quite favorable pricing, considering the decimation in BGM.** Dexcom currently gets ~\$1,500-\$2,000 in a quarter to start a commercial patient on CGM - \$800-\$900 for the starter kit, and then 12 sensors at \$70-\$75 each. On Medicare, Dexcom will receive ~\$250-\$300 per month for a new patient starting on CGM (monthly receiver rental + disposables), meaning a new Medicare patient will bring in \$750-\$900 in a given quarter.

Close Concerns Questions

Q: Does this mean G5 for Medicare will finally start shipping? If not, what is the timing / remaining hurdles (e.g., "local coverage decisions" still needed)?

Q: Will consumables be shipped to Medicare patients monthly? Quarterly?

Q: How many Contour Next one strips will be sent with how many sensors?

Q: What is Dexcom paying Ascensia per strip? Per meter?

Q: Will Dexcom ship everything in one package? Or will the companies ship separately?

Q: Will the Contour Next One send readings directly to the G5 receiver via Bluetooth, or will the receiver require manual fingerstick reading transfer from meter-> CGM?

Q: Will the new touchscreen receiver enable users to utilize Dexcom Share? Will the G5 transmitter sent under Medicare enable use of the G5 app? (Medicare specifically says using the app makes the whole system non-reimbursable, though we're not sure how it will police this. The only downside we can see is if Dexcom ships a transmitter that does not communicate with the G5 app. That would be a bummer.)

Q: What will happen once Dexcom moves to factory calibration with the Verily products? Will this partnership carry over to G6 and beyond?

-- by Adam Brown and Kelly Close