



Size Call Buyer in DexCom as Opportunity Continues to Grow

Ticker/Price: DXCM (\$408)

Analysis:

DexCom (DXCM) buyer 100 September \$440 calls \$28.80, also over 1000 of the \$450 calls bought \$26.90 to \$27.80. DXCM has seen a lot of bullish positioning for the last few months and still has 1000 January \$230 calls in open interest now deep ITM but the September call buy today is a large trade. DXCM this week is working out of a bull wedge and based nicely above the rising 55 day moving average. The current bull flag off the March lows measures for a 200+ point move while \$465 a first Fibonacci extension target. The \$37B medical technology company has disrupted a large and growing glucose monitoring segment in diabetes with its new-age platform allowing for easier mobility and remote monitoring. DXCM's valuation has soared now trading 21X EV/Sales and 85X FY21 EBITDA. DXCM recently joined the S&P 500 and has seen revenues grow above 43% the last two years with 20%+ growth seen the next few years and launching a lot of new product cycles to sustain the growth. The largest and most exciting new marketplace DexCom is looking to enter is the non-intensively managed Type 2 population, estimates at 27M patients. DXCM is introducing new CGM products, penetrating the Pharmacy channel, and looking to expand beyond the insulin-intensive Type 1 and Type 2 diabetic population to include those with gestational diabetes, non-insulin-intensive Type 2, and prediabetics. It is also standing on the threshold of finally delivering an artificial pancreas system with industry partners Tandem, Insulet, and Beta Bionics. Analysts have an average target near \$400 with short interest at 5.3% of the float. Citi raised its target to \$440 on 6/3 and Piper on 5/27 to \$450. BAML raised its target to \$500 this week noting the core intensive insulin market is still under-penetrated and the non-core markets are untapped and look even more realistic than 6 months ago given new Type 2 data and COVID-19. BAML notes "There are over 8m intensive patients globally in markets where there is reimbursement and products approved. By just capturing 35% of these patients, DXCM could grow its patient base to ~3M patients from ~700K today. Even assuming a low ASP of \$4/day this would be a \$4-5B opportunity vs the \$1.5B DXCM generates today (+25% CAGR). we estimate the non-core markets (non-intensive type 2, hospital, and gestational) could be a \$15bn+ opportunity. In addition, these same markets could be ex-US and there are other markets that are further out (pre-diabetes, other analytes other than glucose, and consumer health devices). We estimate the US long acting insulin type 2 market could be a \$7B opportunity (~3.5m patients), other non-intensive type 2 could be a \$6-7B (20M+ patients), the US hospital could be a \$1B market, and gestational diabetes could be about \$500M." Hedge fund ownership rose 1% in Q1 filings.

Hawk Vision:



Hawk's Perspective: DXCM has been a top favorite for years now and continue to be a name I prefer to own long-term despite valuation as the opportunity and growth justify it at any price.

Confidence Ranking: \$\$