Twitter Thread by Brian Feroldi

Brian Feroldi
@BrianFeroldi

1/ How to review quarterly earnings ■

A step by step guide using $DXCM as an example

■■

2/ The BIG question: Is the thesis on track■

Other question:

■Is revenue growing?
■Are margins stable/expanding?
■Profits?
■Balance sheet?
■New opportunities?
■New threats?

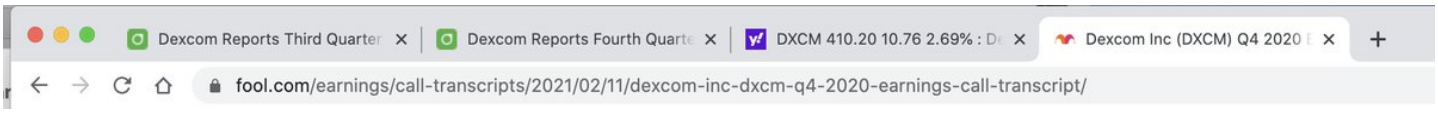
3/ I open 4 browser tabs

Tab 1 - Current company earnings report / shareholder letter

Tab 2 - Previous company earnings report / shareholder letter (check guidance)

Tab 3 - Analyst estimates

Tab 4 - Call Transcript



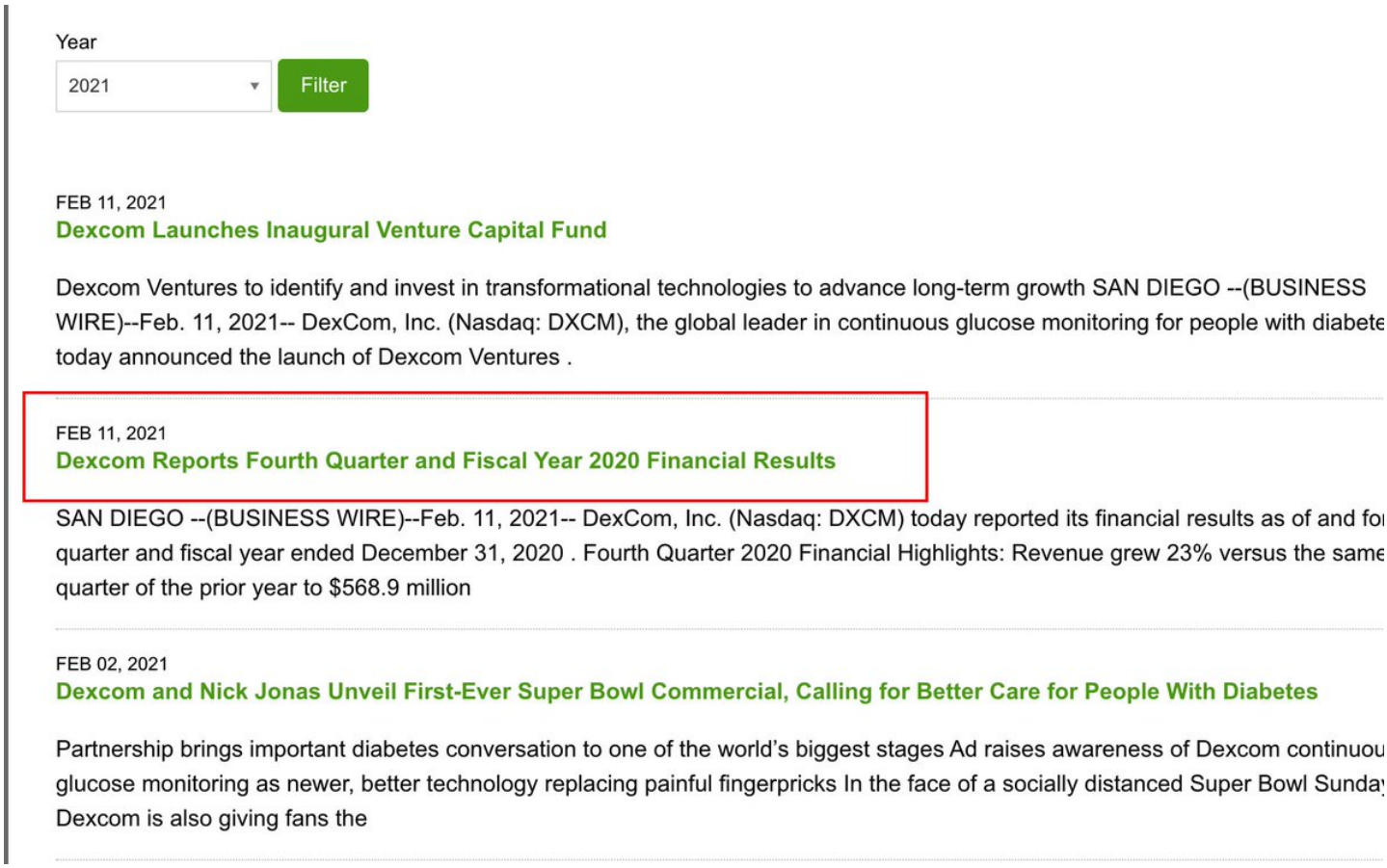
4/ Tabs 1 & 2 - Find the current & previous earnings report

I search "Dexcom Investor Relations"

I click on "press release"

Open the newest quarterly earnings report and last quarter

It can also be a shareholder letter/presentation

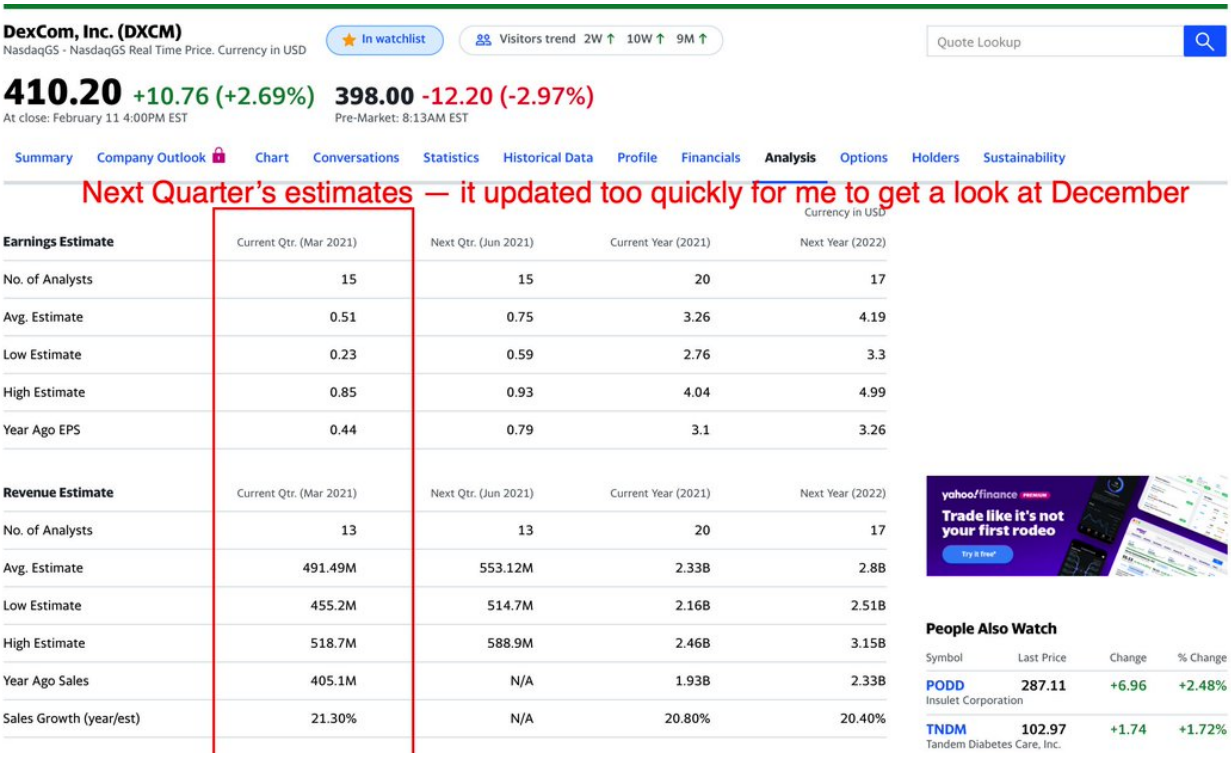


5/ Tab 3 - Find the quarterly analyst estimates

Open up $DXCM in yahoo finance

The "news" section usually has a link to reports on whether the company beat/met estimates

The "analysis" tab is a good source, but sometimes it updates to the next quarter too quickly



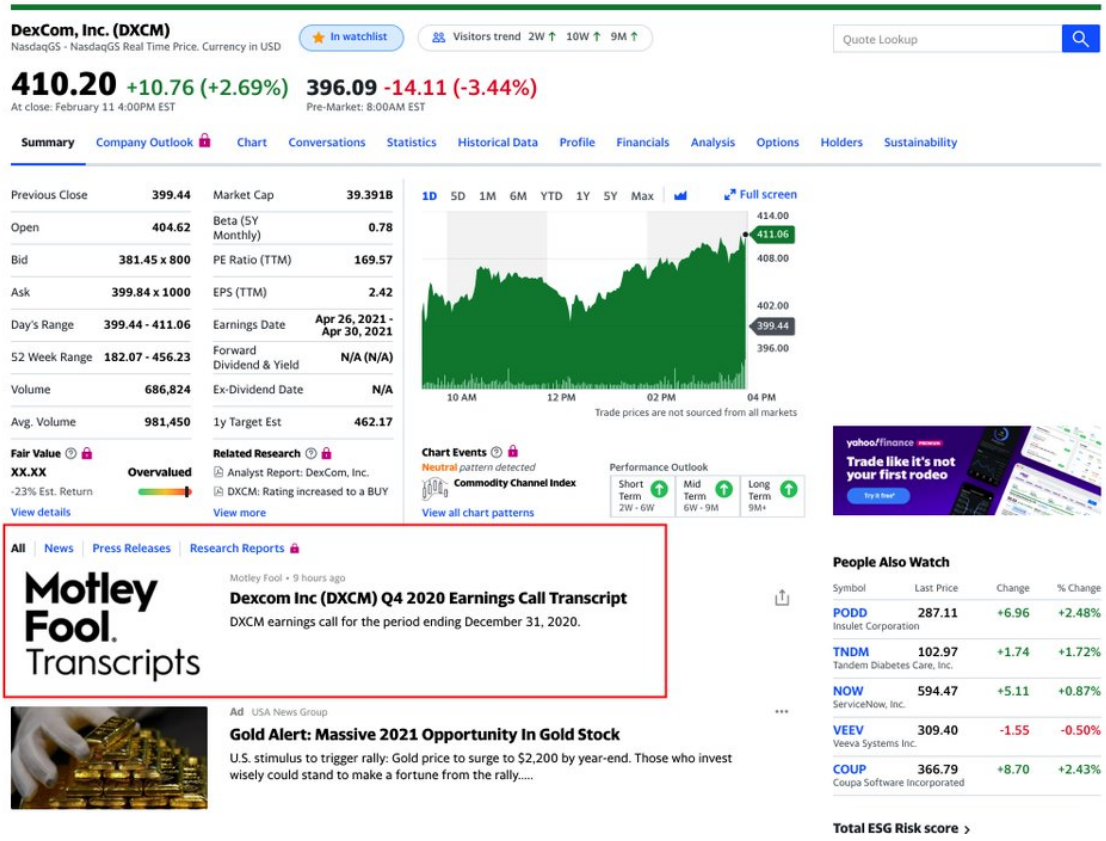
6/ Tab 4 - Find a transcript of the earnings call

@themotleyfool transcripts are best

Sometimes links are on Yahoo Finance news

Search "Fool DXCM Transcript" if not

Seekingalpha / NASDAQ are two other free sources



7/ In most recent earnings, I check the headline numbers:

Revenue growth: 23% to $569 million
Revenue vs. Wall Street expectations (beat by 1.88%)■

non-gaap EPS growth: -21% to $0.91

EPS vs. Wall Street expectations (meet expectation)■

and fiscal year ended December 31, 2020.

Fourth Quarter 2020 Financial Highlights:

- Revenue grew 23% versus the same quarter of the prior year to $568.9 million
- U.S. revenue growth of 20% and international revenue growth of 35%
- GAAP operating income of $104.0 million or 18.3% of revenue, a decrease of 360 basis points compared to the fourth quarter of 2019. Non-GAAP operating income* of $104.4 million or 18.4% of revenue, a decrease of 400 basis points over the same quarter of the prior year

Full Year 2020 Highlights:

- Full year revenue grew 31% versus the prior year to $1.93 billion
- U.S. revenue growth of 30% and international revenue growth of 33%
- GAAP operating income of $299.5 million or 15.5% of revenue, an increase of 590 basis points compared to 2019. Non-GAAP operating income* of $319.4 million or 16.6% of revenue, an increase of 570 basis points over the prior year

8/ Results vs. guidance

Management issued yearly guidance for 2020 in Q3 2020

Revenue +29% to $1.9 billion (actual +31% to $1.93 billion)■

Non-GAAP Gross margin 66% (actual 66.7%)■

Non-GAAP Operating margin 16% (actual 16.5%)■

2020 Annual Guidance

The company is updating guidance for fiscal year 2020 revenue, gross profit, operating margin, and Adjusted EBITDA margin as follows:

- Revenue of approximately $1.900 billion (29% growth)
- Non-GAAP Gross profit margin to meet or exceed 66%
- Non-GAAP Operating margin to meet or exceed 16%
- Adjusted EBITDA margin to meet or exceed 26%

9/ Balance Sheet

$2.71 billion cash

$1.67 billion long-term convertible notes

Cash and Liquidity: As of December 31, 2020, Dexcom held $2.71 billion in cash and marketable securities and our revolving credit facility remains undrawn. The cash balance represents significant financial and strategic flexibility as Dexcom continues to expand production capacity and explore new market opportunities.

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Margins

Use transcript / press release / or calculate yourself

Gross 70.2% vs. 66.8% (gross profit grew faster than revenue)

Non-gaap Operating: 18.3% vs. 22.5% (investigate!)

non-gaap Net: 15.8% vs. 22.9% (investigate!)

Our fourth quarter gross profit was $399.1 million or 70.2% of revenue compared to 66.8% of revenue in the fourth quarter of 2019. The 70.2% of revenue represents our highest gross margin quarter in the past five years. This is another demonstration of the ability of our team to navigate our strategic shift to the pharmacy channel while delivering strong profitability across the organization. As Kevin noted, our successful scaleup of G6 has been a key driver of this margin expansion, while also placing us in our strongest inventory position to date, allowing us to more aggressively target new users as we continue 2021.

11/

News from press release?

■Building out salesforce (explains operating margin & net margin drop)

■Reimbursement in France

Strategic Highlights:

- Initiated and significantly advanced an expansion of the company's field sales force, broadening the potential scope of outreach and adding greater resources to drive awareness among primary care physicians
- Announced agreement with French health authorities to provide reimbursement for Dexcom's G6 CGM system for people with Type 1 diabetes
- Outlined strategic priorities and long-term financial outlook at the company's biennial investor day in early December
- Shortly after the conclusion of the quarter, published three studies in *Diabetes Technology and Therapeutics*, demonstrating:
  - Improved quality of life for people with Type 1 and Type 2 diabetes following the initiation of Dexcom CGM[1]
  - Improved health outcomes for Dexcom users who engage with key Dexcom software features, including: CLARITY, Share, and Siri virtual assistant integration[2]
  - Increased Time in Range across a large cross-section of Dexcom's U.S. user base during the early months of the pandemic, with certain observed regional disparities[3]

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Read through transcript:

■Gross margin ■■ from new manufacturing facility

■Super bowl commerical

■New service center in Lithuania

■New manufacturing site in Malaysia

■New sensor launching in 2nd half 2021

■Enter VC space

growth and other high watermark for DexCom. We doubled G6 capacity in the first six months of the year. Our team has done a great job to meet the ambitious plans that we outlined nearly two years ago to scale G6 capacity, leaving the company in the best inventory position that we have been in since the launch of G6. The scaleup led to strong gross margin expansion in 2020 even as we increasingly shift our business to the pharmacy channel. We closed the full year 2020 with our highest gross margin since 2017. Our enhanced capacity puts us in position to aggressively pursue our growth initiatives. This includes the expansion of our sales force, which we announced in October and have nearly completed, as well as our efforts around product sampling and direct-to-consumer advertising in the U.S. and international markets.

13/ Transcript

■50% of sales now coming through pharmacy

■International sales 35% of revenue

■International DTC campaign launching

Our international business reached a new high watermark of $117 million in the fourth quarter of 2020 growing 35% over the fourth quarter of 2019. This growth includes strong performance in both our direct and distributor markets. We began an international DTC campaign in several of our

14/

2021 Guidance:

Revenue:
Management expects 15% to 20% growth

Wall Street expects 21%

Margins:
Gross ■■ to 65%
Operating ■■ 13%

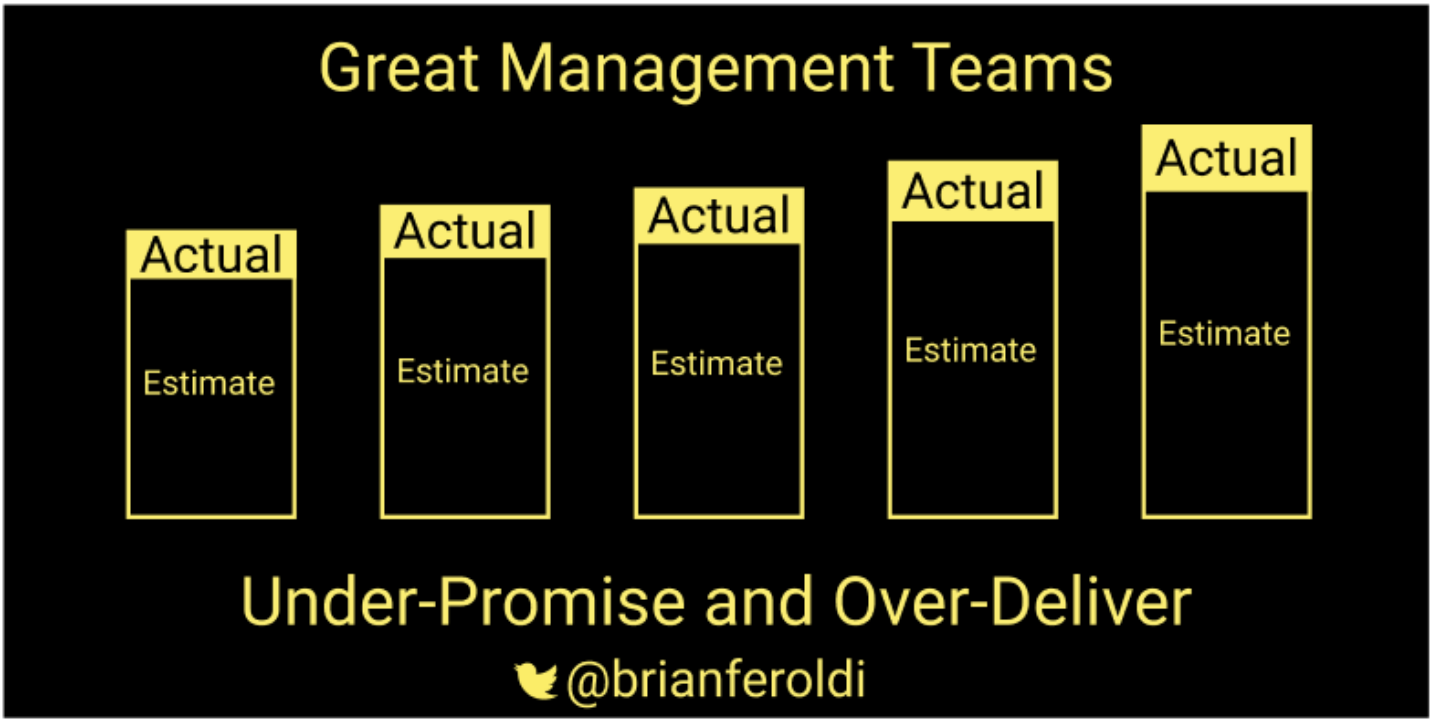
2021 Annual Guidance

The company is reiterating guidance for fiscal year 2021 revenue, and establishing guidance for full year gross profit, operating margin, and Adjusted EBITDA margin as follows:

- Revenue of approximately $2.21-2.31 billion (15-20% growth)
- Non-GAAP Gross profit margin of approximately 65%
- Non-GAAP Operating margin of approximately 13%
- Adjusted EBITDA margin of approximately 23%

15/

Management has a long history of under-promising & over-delivering, so I view these numbers as the floor, not the ceiling



16/

My big takeaways:

■Revenue growing
■Gross margin expanding
■International expansion
■Reinvestment year causing bottom-line to look worse
■2021 Margins will be weak
■Move to pharmacy working
■G7 launching in 2021
■VC fund adds optionality

THESIS ON TRACK

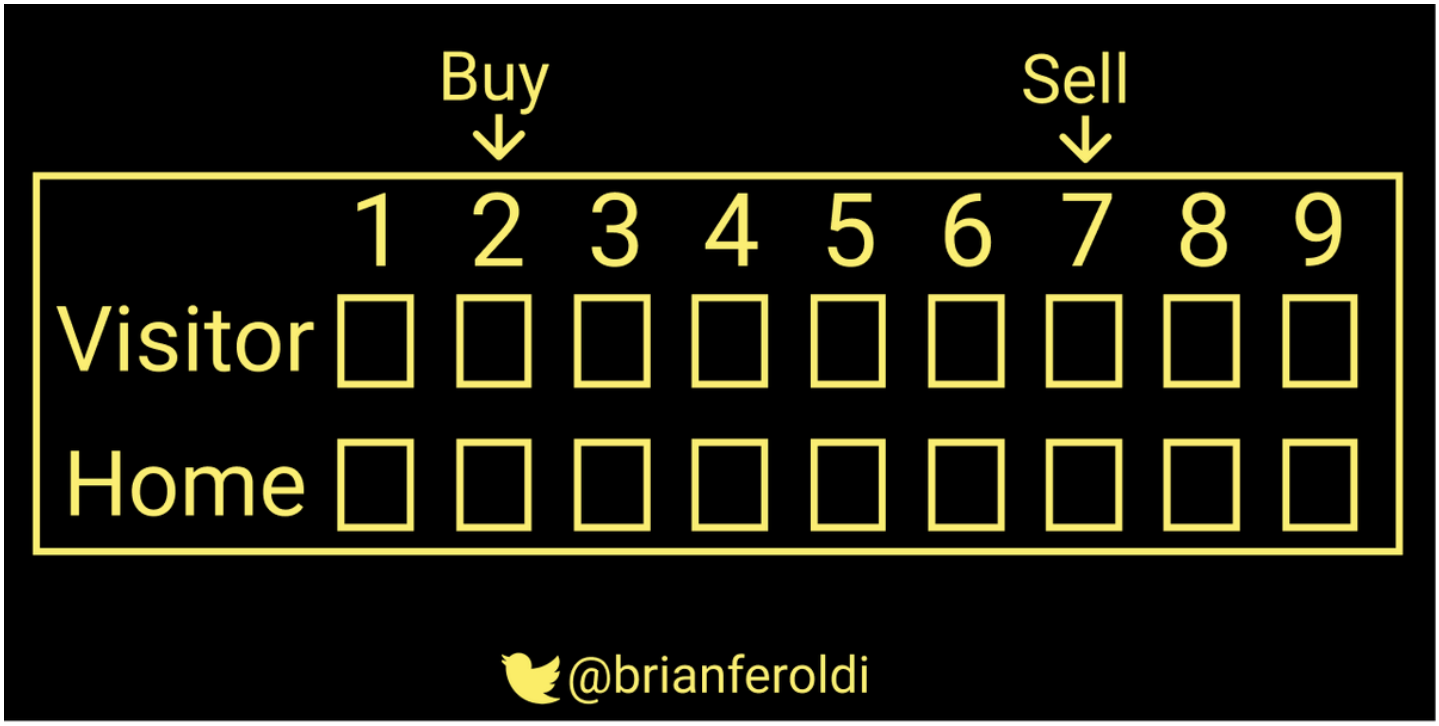
17/

If you own $DXCM, the best move is to continue to do nothing



18/

Best guess is that $DXCM is in the top of the 5th inning of its growth cycle

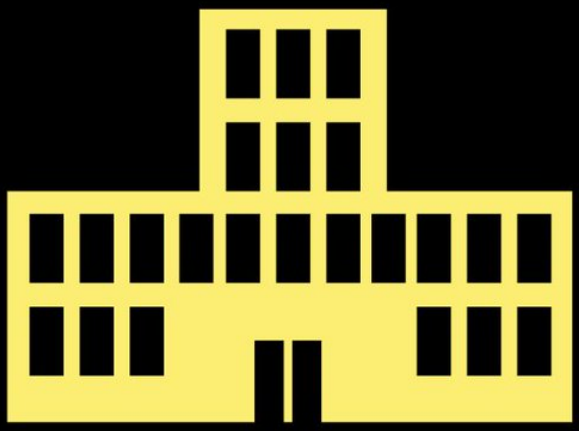


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