

Shockwave Medical

US peripheral stabilized at new normal; 2H acceleration in SWAV's hands

Reiterate Rating: BUY | PO: 275.00 USD | Price: 236.32 USD

SWAV Q4 ahead; US peripheral in line but outlook good

SWAV's Q4 revenue of \$203m was slightly ahead of Street's \$199.5m. US peripheral revenue of \$42.8m was in line (-0.7% q/q vs flattish q/q guide). Strong WW coronary sales drove the beat vs Street. SWAV reps/marketing budgets have been giving more attention to coronary with C2+ launch/reimbursement wins which has helped drive the strong coronary growth. The sales force focused on coronary right now hasn't helped peripheral growth but later this year when new peripheral products launch focus will likely shift back more toward peripheral and help drive the 2H peripheral rev acceleration.

US peripheral +growth every qtr; accelerating over year

SWAV's 2024 revenue guide of \$910-930m (25-27% y/y growth) was slightly ahead of the Street's \$918m (+25% y/y growth). Q124 revenue likely shakes out around the \$210m range. The guide implies US peripheral +8% range for 2024 with +1-2% y/y growth in Q1 accelerating to low double digits in the 2H24. SWAV noted the prior auth issue has stabilized at a new normal level and customers are learning how to navigate Aetna's increased scrutiny, while no other payers have followed Aetna.

PO to \$275 from \$250 given higher peer multiples

We update our model for Q4 earnings and our new 2024E/2025E EPS goes to \$4.93 / \$6.39 (vs \$4.24 / \$5.67 prior, respectively). We reiterate our Buy rating as we think SWAV's pipeline and profitable growth can drive the stock higher as EBITDA estimates move up over time. Given higher peer multiples we raise our PO to \$275 (32x 2025E EBITDA) from \$250 (30x 2025E EBITDA).

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	5.71	3.86	4.93	6.39	8.38
EPS Change (YoY)	NM	-32.4%	27.7%	29.6%	31.1%
Consensus EPS (Bloomberg)			4.45	5.88	7.07
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	41.4x	61.2x	47.9x	37.0x	28.2x
EV / EBITDA*	67.9x	51.6x	39.6x	29.4x	21.8x
Free Cash Flow Yield*	1.1%	1.7%	2.2%	2.6%	3.7%

* For full definitions of *IQmethod*SM measures, see page 4.

15 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	250.00	275.00
2024E Rev (m)	919.7	920.5
2025E Rev (m)	1,144.7	1,148.5
2026E Rev (m)	NA	1,413.5
2024E EPS	4.24	4.93
2025E EPS	5.67	6.39
2026E EPS	NA	8.38

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Stock Data

Price	236.32 USD
Price Objective	275.00 USD
Date Established	15-Feb-2024
Investment Opinion	C-1-9
52-Week Range	157.00 USD - 315.95 USD
Mrkt Val (mn) / Shares Out (mn)	8,719 USD / 36.9
Free Float	98.1%
Average Daily Value (mn)	120.24 USD
BofA Ticker / Exchange	SWAV / NAS
Bloomberg / Reuters	SWAV US / SWAV.OQ
ROE (2024E)	23.5%
Net Dbt to Eqty (Dec-2023A)	27.5%
ESGMeter™	High

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iQprofileSM Shockwave Medical

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	25.3%	14.4%	11.8%	12.9%	14.2%
Return on Equity	57.4%	25.0%	23.5%	22.2%	21.8%
Operating Margin	25.3%	21.8%	22.6%	24.5%	27.0%
Free Cash Flow	93	149	194	229	320

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.5x	1.2x	1.2x	1.1x	1.2x
Asset Replacement Ratio	5.2x	2.8x	2.4x	2.4x	2.5x
Tax Rate	NM	15.5%	24.0%	24.0%	24.0%
Net Debt-to-Equity Ratio	-25.9%	27.5%	-2.1%	-20.4%	-35.2%
Interest Cover	37.5x	NA	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	490	730	920	1,149	1,414
% Change	106.5%	49.1%	26.1%	24.8%	23.1%
Gross Profit	425	635	800	999	1,258
% Change	117.0%	49.5%	26.0%	25.0%	25.9%
EBITDA	129	170	221	298	402
% Change	NM	31.6%	30.4%	34.5%	34.9%
Net Interest & Other Income	(3)	15	40	40	40
Net Income (Adjusted)	216	147	188	244	320
% Change	NM	-31.8%	27.9%	29.7%	31.2%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	216	147	188	244	320
Depreciation & Amortization	5	11	14	17	20
Change in Working Capital	(58)	(61)	(50)	(65)	(45)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(45)	82	74	74	74
Capital Expenditure	(25)	(30)	(32)	(40)	(50)
Free Cash Flow	93	149	194	229	320
% Change	NM	60.8%	30.1%	18.1%	39.7%
Share / Issue Repurchase	7	9	10	10	10
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	6	593	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	157	548	751	989	1,319
Trade Receivables	71	108	133	166	205
Other Current Assets	231	535	561	596	602
Property, Plant & Equipment	48	66	84	108	138
Other Non-Current Assets	139	283	283	283	283
Total Assets	646	1,539	1,813	2,143	2,547
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	63	78	80	83	83
Long-Term Debt	24	731	731	731	731
Other Non-Current Liabilities	47	64	64	64	64
Total Liabilities	135	873	875	877	878
Total Equity	511	666	938	1,266	1,669
Total Equity & Liabilities	646	1,539	1,813	2,143	2,547

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Medical Technology

Company Description

Shockwave is a vascular-focused medical device company that offers a novel medical solution for treating calcified artery disease and calcium build up in the intimal (inner layer inside the artery) and medial (middle layer of the artery) layers of the arteries through the combination of traditional balloon angioplasty and lithotripsy. The company's balloon-lithotripsy system is used for calcified peripheral arteries (below and above the knee) and coronary arteries.

Investment Rationale

SWAV launched coronary in the US in Feb 2021 and coronary sales were already annualizing over \$240m as of the Q421. The US market is around a \$1.5b opportunity (OUS market is \$3b+) and we see continued coronary driven beats coming from SWAV. Others may eventually come to market with IVL but SWAV also has a large opportunity outside the US (China, Japan, and Germany are notable opportunities).

Stock Data

Average Daily Volume 508,792

Quarterly Earnings Estimates

	2023	2024
Q1	1.03A	0.88E
Q2	0.76A	1.22E
Q3	0.92A	1.33E
Q4	1.16A	1.51E

Price objective basis & risk

Shockwave Medical (SWAV)

Our \$275 PO is derived using a 32x EV/2025E EBITDA (including stock compensation) multiple. This represents a premium given SWAV can grow EBITDA faster than mature large caps. High quality large cap names trade at 21x EBITDA and large cap growth trades at 37x EBITDA.

Downside risks: SWAV's success has gotten the attention of competitors, and while it's not clear how successful a competitive technology would be, it seems quite likely that SWAV will eventually face competition. Other downside risks are any major changes in reimbursement and an inability to expand in new geographies. COVID and staffing challenges are a risk as well.

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US - Medical Technology & Devices Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Abbott Laboratories	ABT	ABT US	Travis Steed
	Axonics	AXNX	AXNX US	Travis Steed
	Bausch & Lomb	BLCO	BLCO US	Craig Bijou
	Becton Dickinson	BDX	BDX US	Travis Steed
	Boston Scientific	BSX	BSX US	Travis Steed
	Dexcom	DXCM	DXCM US	Travis Steed
	Inari Medical	NARI	NARI US	Travis Steed
	Inspire Medical	INSP	INSP US	Travis Steed
	Insulet	PODD	PODD US	Travis Steed
	Intuitive Surgical	ISRG	ISRG US	Travis Steed
	Medtronic	MDT	MDT US	Travis Steed
	Paragon 28	FNA	FNA US	Craig Bijou
	Procept BioRobotics Corporation	PRCT	PRCT US	Craig Bijou
	RxSight	RXST	RXST US	Craig Bijou
	Shockwave Medical	SWAV	SWAV US	Travis Steed
	Si-Bone	SIBN	SIBN US	Craig Bijou
	Stryker	SYK	SYK US	Travis Steed
	The Cooper Companies	COO	COO US	Craig Bijou
NEUTRAL				
	Baxter International Inc	BAX	BAX US	Travis Steed
	Conmed	CNMD	CNMD US	Travis Steed
	Edwards Lifesciences	EW	EW US	Travis Steed
	Integer Holdings Corporation	ITGR	ITGR US	Craig Bijou
	Merit Medical	MMSI	MMSI US	Craig Bijou
	Teleflex Incorporated	TFX	TFX US	Craig Bijou
	Zimmer Biomet	ZBH	ZBH US	Travis Steed
UNDERPERFORM				
	Embecta	EMBC	EMBC US	Travis Steed
	Globus Medical	GMED	GMED US	Craig Bijou
	Integra Lifesciences	IART	IART US	Craig Bijou
	Nevro	NVRO	NVRO US	Travis Steed
	Outset Medical	OM	OM US	Travis Steed
	Silk Road Medical	SILK	SILK US	Travis Steed
	Tandem Diabetes Care	TNDM	TNDM US	Travis Steed
RSTR				
	GE HealthCare	GEHC	GEHC US	Craig Bijou



US - Medical Technology & Devices Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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Shockwave Medical (SWAV) Price Chart



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Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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