

Edwards Lifesciences

EW +17.5% last week... does the move make sense?

Reiterate Rating: NEUTRAL | PO: 90.00 USD | Price: 86.09 USD

EW's multiple expanded 4 turns last week

The good news kept coming for EW last week. [BSX's US TAVR is no longer in 2H24](#) and EW's Evoque tricuspid replacement device got US approval without a panel (when some thought it might be delayed given the panel was not scheduled with ABT's TriClip panel). EW's stock was up +17.5% last week (vs S&P +1%). EW started the week trading at 24x 2025 EPS (in line with SYK/BSX) and ended the week trading at 28x 2025 EPS (2 turns ahead of SYK and 3 turns ahead of BSX).

EW's news last week worth about 12% by our math

Without BSX TAVR we no longer worry about EW losing \$100-200m of TAVR from BSX share/pricing pressure. This is worth \$0.10-0.20 of EPS or 4-8% in EPS. We think the Evoque approval (TAM value) is worth \$1.5bn +/- in EW's market cap today or 3-4% (math at end of note). We estimate last week's news is worth at most 12% to EW vs its 17.5% move higher. But peers also moved higher with BSX +5% and SYK +10% last week suggesting on a relative basis the move is not completely unwarranted.

EW from here...bear case off table; but stock likely digests

We think a lot of last week's move holds but the stock likely needs to digest this multiple expansion and see where 2024 estimates move over the next few quarters (a good Q4 is likely well appreciated now). But last week does make it a lot more likely EW can sustain double digit growth putting the old bear thesis into hibernation. We see no rush and reiterate our Neutral rating as the stock rerated quickly. But, we do raise our PO to \$90 from \$84 (30x 2025 EPS vs 28x prior) to account for Evoque and peer multiples.

Evoque could add 1 point to EW revenue growth

We think Evoque could add \$50m of growth to EW or roughly 1 point of revenue growth, or something between ABT's Triclip in Europe and ABT's US Mitraclip ramp. To get this growth EW needs to show benefit on hard endpoints (1 year data at TCT2024). But this seems more likely now after EW's quote last week saying "the results showed favorable trends in the device group." Learning curve will be a limiting factor for Evoque vs TriClip as Evoque is first replacement in mitral / tricuspid (docs more familiar with clipping).

ABT TriClip in Europe and MitraClip in US are proxies

ABT's Triclip was approved in Europe in April 2020 and did about \$70m in both 2021 and 2022 and \$100m in 2023. ABT's US mitraclip was \$34m in 2014 (1ST full year), 96m in 2015, \$156m in 2016, \$198m in 2017, \$247m in 2018, and \$365m in 2019.

We see Evoque approval worth \$1.5bn in EW market cap

There are 3m people in the US with tricuspid regurgitation so the Evoque approval also adds some longer term TAM value for EW's stock outside of the near term impact on estimates. We try to value Evoque as a separate pre-revenue asset. In 5 years US Evoque could be doing \$250m in profitable revenue and growing 20%. We think 7-10x forward sales is fair suggesting in 5 years Evoque could be worth \$2.1-3bn standalone (7-10x forward revenue of \$300m) or roughly \$1.5bn +/- discounted back to today.

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12655094

Timestamp: 05 February 2024 06:00AM EST

05 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	84.00	90.00

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Stock Data

Price	86.09 USD
Price Objective	90.00 USD
Date Established	5-Feb-2024
Investment Opinion	B-2-9
52-Week Range	60.57 USD - 94.87 USD
Mkt Val (mn) / Shares Out (mn)	52,214 USD / 606.5
Free Float	99.1%
Average Daily Value (mn)	310.05 USD
BofA Ticker / Exchange	EW / NYS
Bloomberg / Reuters	EW US / EW.N
ROE (2023E)	23.7%
Net Dbt to Eqty (Dec-2022A)	-3.0%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

TAVR = transcatheter aortic valve replacement

ABT = Abbott

EW = Edwards Lifesciences

TAM = total addressable market

BSX- Boston Scientific

SYK- Stryker

Exhibit 1: ABT's US MitraClip revenue summary

ABT's US mitraclip was \$34m in 2014 (1ST full year), 96m in 2015, \$156m in 2016, \$198m in 2017, \$247m in 2018, and \$365m in 2019

MitraClip - WW	2013A	2014A	2015A	2016A	2017A	2018A	2019A	2020A	2021A	2022A	1Q23A	2Q23A	3Q23A	4Q23A	2023A
WW Sales	3	34	96	352	431	543	688	628	760	765	200	218	209	214	841
y/y growth constant currency											10%	10%	12%	9%	10%
y/y growth-reported				na	21%	26%	27%	-9%	21%	1%	6%	8%	14%	11%	10%
US Sales	3	34	96	156	198	247	365	330	423	425	107	111	112	111	441
y/y growth				na	27%	25%	48%	-9%	28%	0%	6%	1%	6%	3%	4%
OUS Sales				196	233	295	323	297	337	340	93	107	97	103	400
y/y CC growth							14%				14%	20%	21%	17%	18%
y/y reported growth				na	19%	27%	9%	-8%	13%	1%	7%	18%	26%	21%	18%

Source: Company materials.

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Exhibit 2: Mitral & tricuspid market model summary

ABT's Triclip was approved in Europe in April 2020 and did about \$70m in both 2021 and 2022 and \$100m in 2023.

	2017A	2018A	2019A	2020A	2021A	2022A	1Q23A	2Q23A	3Q23A	4Q23E	2023E
US Mitral & Tricuspid Market											
Edwards	0	0	0	0	0	5	9	9	10	10	37
Abbott (MitraClip)	198	247	365	330	423	425	107	111	112	111	441
Abbott (Tendyne)	0	0	0	0	0	0	0	0	0	0	0
Abbott (TriClip)	0	0	1	8	2	0	0	0	0	2	2
Total US Revenue	198	247	366	338	425	430	116	120	122	123	480
y/y reported growth	26.9%	24.8%	48.1%	-7.5%	25.6%	1.2%	14.4%	9.1%	13.6%	9.8%	11.6%
US Market Share											
Edwards	0.0%	0.0%	0.0%	0.0%	0.0%	1.2%	7%	8%	8%	8%	7.7%
Abbott (MitraClip)	100.0%	100.0%	99.7%	97.6%	99.5%	98.8%	93%	93%	92%	90%	91.9%
Abbott (Tendyne)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0%	0%	0%	0%	0.0%
Abbott (TriClip)	0.0%	0.0%	0.3%	2.4%	0.5%	0.0%	0%	0%	0%	2%	0.4%
OUS Mitral & Tricuspid Market											
Edwards	3	3	28	42	86	111	33	39	43	45	160
Abbott (MitraClip)	233	295	323	297	337	340	93	107	97	103	400
Abbott (Tendyne)	0	0	0	9	14	10	3	3	2	2	10
Abbott (TriClip)	0	0	0	25	71	70	23	26	26	23	98
Total OUS Revenue	236	298	351	373	508	531	152	175	168	173	668
OUS cc growth	20.3%	23.3%	24.4%	5.6%	30.7%	12.3%	20.2%	26.9%	28.5%	30.0%	26.5%
OUS Market Share											
Edwards	1.4%	1.0%	8.0%	11.2%	16.9%	20.9%	22%	22%	26%	26%	23.9%
Abbott (MitraClip)	98.6%	99.0%	92.0%	79.7%	66.4%	64.0%	61%	61%	58%	60%	59.9%
Abbott (Tendyne)	0.0%	0.0%	0.0%	2.4%	2.8%	1.9%	2%	2%	1%	1%	1.5%
Abbott (TriClip)	0.0%	0.0%	0.0%	6.7%	14.0%	13.2%	15%	15%	15%	13%	14.7%
WW Mitral & Tricuspid Market											
Edwards	3	3	28	42	86	116	42	48	52	55	197
Abbott (MitraClip)	431	543	688	628	760	765	200	218	209	214	841
Abbott (Tendyne)	0	0	0	9	14	10	3	3	2	2	10
Abbott (TriClip)	0	0	1	33	73	70	23	26	26	25	100
Total WW Revenue	434	546	717	717	933	961	268	295	289	296	1,148
WW cc growth	23.2%	24.0%	35.4%	-1.1%	28.3%	7.0%	17.6%	19.0%	21.8%	20.8%	19.8%

Source: Company financials, BofA Global Research estimates

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Price objective basis & risk**Edwards Lifesciences (EW)**

Our PO of \$90 is based on a 30x PE multiple on our 2025E EPS. We assume with high single digit revenue growth, good margins/cash flow/balance sheet and some upside TAM potential, EW deserves a 30x forward EPS (two turn premium to SYK).

Risks to our PO are: 1) the TAVR market slows if the TAM is not as big as we expect or new populations do not benefit from TAVR, 2) the mitral/tricuspid market does not materialize, 3) EW faces setbacks with its clinical trials or pipeline, 4) the TAVR market becomes more competitive.



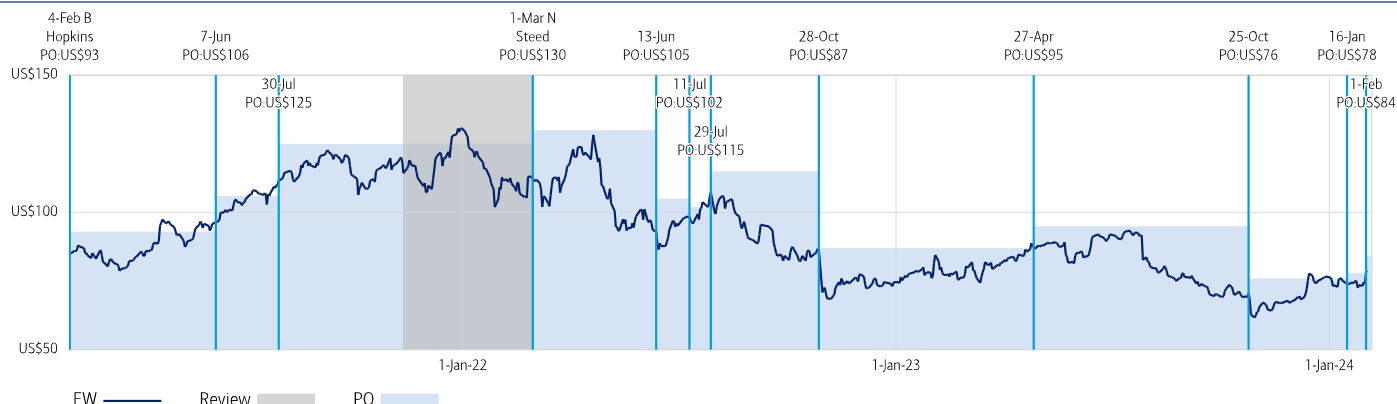
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Edwards Lifesciences (EW) Price Chart



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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%

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