

Edwards Lifesciences

Evoque approval evoking discussion on Q4 call

Reiterate Rating: NEUTRAL | PO: 97.00 USD | Price: 88.25 USD

Q4 call focus mostly on Evoque with Q4 results in line

Q4 WW TAVR growth was 12% vs Street's 11%. Both US and OUS TAVR stepped up sequentially in Q4 and EW sees q/q growth again into Q1. The focus of the Q4 call was last week's Evoque approval. The mortality curves from the FDA label look compelling (part of why EW got the earlier approval). The question now becomes the slope of the launch but with Evoque likely to show benefit on hard endpoints we give EW more credit in the multiple and raise our PO to \$97 (32x 2025E EPS vs 30x prior). We reiterate our Neutral rating as we think US Evoque ramp will look closer to US mitral (\$250m in 5 years) but we have more work to do as there are upside scenarios.

Updates on Evoque from Q4 earnings

Evoque approval moved TMTT guidance to the high end of the previous \$280-\$320m guidance range. Evoque pricing will be at a premium to both Pascal and Sapien 3 with Resilia. EW plans to have a controlled rollout of Evoque and will start with the centers in the clinical trial (50 sites activated now in US) and gradually expand the footprint. EW will apply for NTAP, which would become effective on October 1st if granted. EW believes the tricuspid market can continue to grow at a very strong rate and probably exceed what we've seen with mitral growth as referrals and awareness of the disease continues, especially with the two modalities (replacement with Evoque and repair with ABT's TriClip) entering the market at a similar time. EW thinks Evoque will be able to help a vast majority of patients with TR but there will still be many patients where replacement doesn't make sense for anatomical/other reasons and a closing technology or other modality may make sense. Since the trial enrolled very quickly EW knows there are patients currently looking for treatment options and over time will continue to leverage a lot of the TAVR patient activation efforts to continue to grow. We also update our model for Q4 EPS.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	2.48	2.51	2.75	3.01	3.31
GAAP EPS	2.48	2.51	2.75	3.01	3.30
EPS Change (YoY)	11.7%	1.2%	9.6%	9.5%	10.0%
Consensus EPS (Bloomberg)			2.76	3.08	3.45
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	35.6x	35.2x	32.1x	29.3x	26.7x
EV / EBITDA*	26.8x	27.6x	25.1x	22.7x	20.6x
Free Cash Flow Yield*	1.8%	1.8%	2.6%	3.1%	3.3%

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

07 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	90.00	97.00
2024E Rev (m)	6,400.4	6,486.7
2025E Rev (m)	6,994.3	7,091.0
2026E Rev (m)	7,676.6	7,778.3
2024E EPS	2.73	2.75
2025E EPS	2.98	3.01
2026E EPS	3.28	3.31

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Stock Data

Price	88.25 USD
Price Objective	97.00 USD
Date Established	7-Feb-2024
Investment Opinion	B-2-9
52-Week Range	60.57 USD - 94.87 USD
Mkt Val (mn) / Shares Out (mn)	53,524 USD / 606.5
Free Float	99.1%
Average Daily Value (mn)	337.09 USD
BofA Ticker / Exchange	EW / NYS
Bloomberg / Reuters	EW US / EW.N
ROE (2024E)	20.9%
Net Dbt to Eqty (Dec-2023A)	-15.2%

ESGMeterTM

High

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Timestamp: 07 February 2024 05:00AM EST

TR = tricuspid regurgitation;

TAVR = transcatheter aortic valve replacement;

TMTT = transcatheter mitral and tricuspid

iQprofileSM Edwards Lifesciences

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	20.9%	19.3%	17.6%	15.9%	14.7%
Return on Equity	26.6%	23.9%	20.9%	18.4%	16.6%
Operating Margin	33.4%	28.9%	29.5%	29.9%	30.3%
Free Cash Flow	974	990	1,381	1,652	1,781

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.8x	0.8x	1.0x	1.1x	1.1x
Asset Replacement Ratio	1.8x	1.5x	2.0x	2.6x	2.8x
Tax Rate	14.6%	15.0%	16.5%	17.0%	17.5%
Net Debt-to-Equity Ratio	-3.0%	-15.2%	-28.9%	-39.6%	-47.2%
Interest Cover	NA	NA	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	5,382	6,005	6,487	7,091	7,778
% Change	2.9%	11.6%	8.0%	9.3%	9.7%
Gross Profit	4,309	4,630	4,993	5,473	6,019
% Change	8.0%	7.4%	7.8%	9.6%	10.0%
EBITDA	1,930	1,874	2,060	2,275	2,512
% Change	12.1%	-2.9%	10.0%	10.4%	10.4%
Net Interest & Other Income	19	64	86	88	88
Net Income (Adjusted)	1,551	1,531	1,670	1,836	2,020
% Change	10.4%	-1.3%	9.1%	9.9%	10.0%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	1,551	1,528	1,670	1,835	2,019
Depreciation & Amortization	140	145	152	152	152
Change in Working Capital	(421)	(317)	(264)	(76)	(94)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(51)	(144)	131	131	131
Capital Expenditure	(245)	(222)	(308)	(390)	(428)
Free Cash Flow	974	990	1,381	1,652	1,781
% Change	-30.8%	1.6%	39.5%	19.7%	7.8%
Share / Issue Repurchase	(1,727)	(606)	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	769	1,665	3,181	4,969	6,886
Trade Receivables	699	795	954	1,035	1,135
Other Current Assets	1,628	2,037	2,147	2,254	2,378
Property, Plant & Equipment	1,633	1,702	1,858	2,096	2,372
Other Non-Current Assets	3,564	3,622	3,622	3,622	3,622
Total Assets	8,293	9,820	11,762	13,977	16,393
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	1,022	1,406	1,411	1,524	1,654
Long-Term Debt	596	597	597	597	597
Other Non-Current Liabilities	867	808	808	808	808
Total Liabilities	2,486	2,811	2,816	2,929	3,059
Total Equity	5,807	7,009	8,946	11,048	13,335
Total Equity & Liabilities	8,293	9,820	11,762	13,977	16,393

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

Company Sector

Medical Technology

Company Description

Edwards Lifesciences provides devices and technologies for structural heart disease, and critical care and surgical monitoring. EW is a leader in transcatheter heart valve replacement - one of the most visible, innovative and exciting markets in the medical device sector.

Investment Rationale

We are bullish on the long-term for EW but Neutral over the next 12 months as we are being more selective in growth names in the current environment. We prefer growth names where there could be significant upside in estimates to offset any multiple compression and EW's catalysts over the next 12 months are unlikely to drive as much upside to near term estimates.

Stock Data

Average Daily Volume 3,942,536

Quarterly Earnings Estimates

	2023	2024
Q1	0.62A	0.64E
Q2	0.66A	0.69E
Q3	0.59A	0.69E
Q4	0.64A	0.73E

Price objective basis & risk

Edwards Lifesciences (EW)

Our PO of \$97 is based on a 32x 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 32x 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.

Analyst Certification

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US - Medical Technology & Devices Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
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	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
	GE HealthCare	GEHC	GEHC US	Craig Bijou
	Integer Holdings Corporation	ITGR	ITGR 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



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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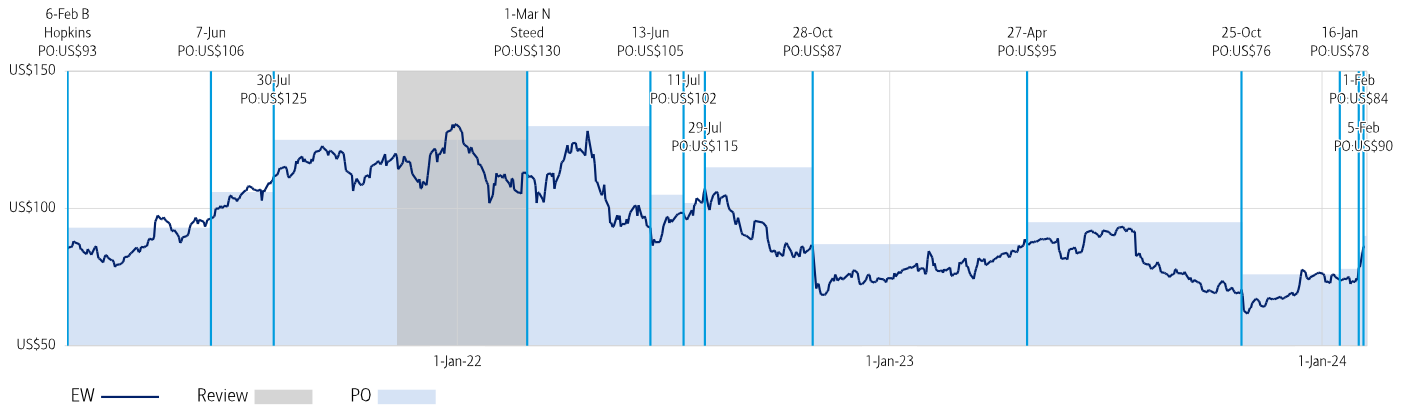
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Edwards Lifesciences (EW) Price Chart



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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%

^{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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