

Medical Technology

Growth medtech PE multiples not as stretched as you may think

Industry Overview

The better rev growth justifies the higher PE multiples

The gap between large cap growth medtech P/E multiples vs value medtech P/E multiples remain at the extremes. We pointed it out last year ([Value medtech catch up? We don't see a catalyst near term](#)) and the gap has grown even wider this year. However, the higher revenue growth outlook for these large cap growth stocks like BSX and SYK suggests the multiples are not as stretched as it might appear. And there could be more multiple expansion if investors start to view these higher growth rates as sustainable. EW stands out as a name where the multiple could continue to move up as we discuss below. See inside for our charts on rev growth vs medtech PE multiples.

SYK and BSX at 30x 2024 EPS correlated with 8% growth

SYK and BSX trade at 30x 2024 EPS today which is correlated with 8% organic revenue growth. 30x P/E is elevated vs historical levels but these companies are still not fully pricing in double-digit revenue growth (likely because investors do not view it as sustainable long term). However, 8% revenue growth seems sustainable suggesting the multiples at a minimum look fair. And with 10%+ revenue growth correlated to a ~35x PE there is still some room for more multiple expansion if the double-digit growth keeps repeating and gets more baked into the stock valuation.

Even in 2019, 10% revenue growth correlated to 33.5x PE

We looked back at 2019 to see the correlation of P/E multiples in March 2019 with where companies set 2019 guidance. The correlation between medtech revenue growth and P/E multiples has not changed drastically. This suggests the multiple expansion we've seen in BSX and SYK is due more to the better growth outlooks vs some other factor. In 2019, 5% revenue growth was correlated with a 21x P/E multiple, 8% growth with 28.5x P/E, and 10% growth with 33.5x P/E. Currently, on 2024 EPS, 5% revenue growth is 19x P/E, 8% growth is 29x P/E, and 10% growth is 36x P/E. This means there's only a 2 turn premium today for the better growth compared to 2019.

EW could earn some multiple expansion with better qtrs.

EW stands out as a name that could see multiple expansion with more consistent double-digit growth. We think this could start to happen and even see potential for TAVR to reaccelerate as EW is partnering with centers to drive TAVR growth (seeing volume increase 2-4x in some centers; 3 of 5 largest centers fastest growing). EW is about to start scaling this initiative to hundreds of centers. See our upgrade last week ([EW: Double digit growth is back – upgrade to Buy](#)).

EW could more easily earn a premium multiple vs growth

EW's current 2025 P/E multiple is correlated with 9% revenue growth. However, we think EW could earn an added premium multiple vs its revenue growth given the growth can last longer (large TAM drives more durable growth vs growth that's coming from shorter duration product cycles/M&A) and given EW has higher margins/better free cash flow. We maintain our Buy rating on EW as we see a return to double-digit growth driving the stock and consensus estimates higher.

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Acronym glossary

rev = revenue
TAVR = transcatheter aortic valve replacement
TAM = total addressable market
M&A = mergers and acquisitions

Companies mentioned

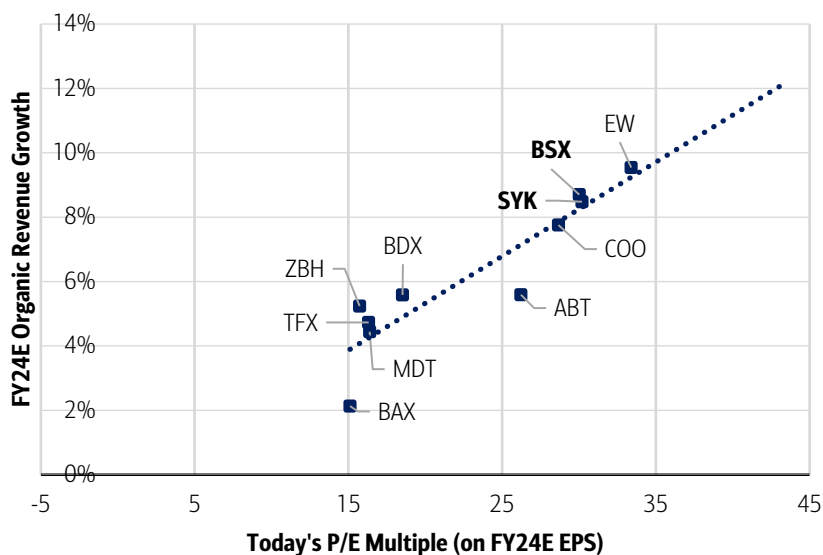
SYK = Stryker
BSX = Boston Scientific
EW = Edwards Lifesciences

Revenue growth Vs P/E multiple

Below we chart expected organic revenue growth for 2024 and 2025 against P/E multiples for large cap medtech. Currently, on 2024 EPS, 5% revenue growth is worth 19x P/E, 8% revenue growth is worth 29x P/E, and 10% growth is worth 36x P/E.

Exhibit 1: Expected organic revenue growth Vs 2024 P/E multiples

Below we plot 2024 P/E multiple vs the Street's estimate for 2024 organic revenue growth for large cap medtech

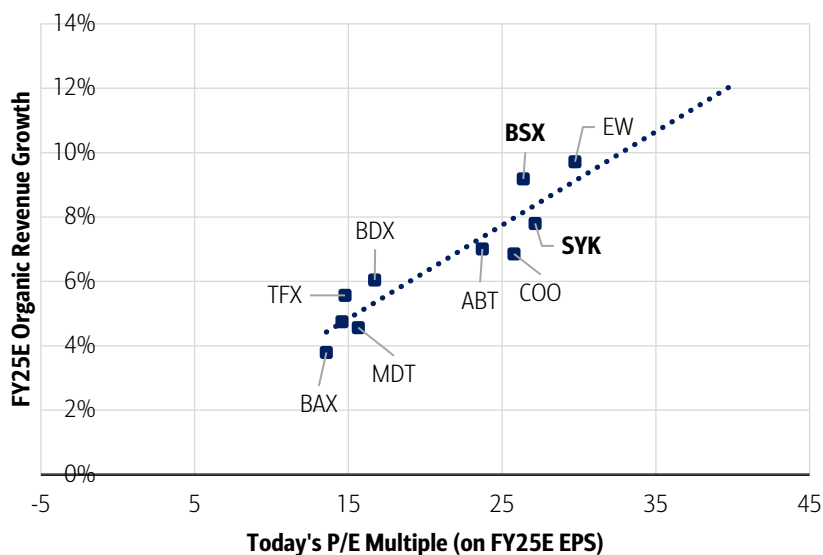


Source: Company filings, Bloomberg, BofA Global Research. *Excludes ISRG.

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Exhibit 2: Expected organic revenue growth Vs 2025 P/E multiples

Below we plot 2025 P/E multiple vs the Street's estimate for 2025 organic revenue growth for large cap medtech.



Source: Company filings, Bloomberg, BofA Global Research. *Excludes ISRG.

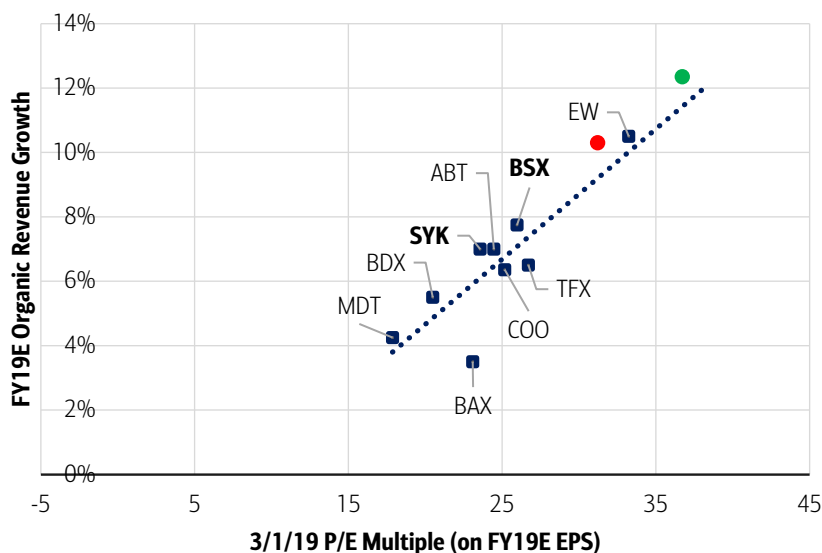
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Looking back at 2019 the correlation wasn't much different

We looked at the correlation between 2019 revenue guidance each company gave and the PE multiples on Street consensus on March 1, 2019. The correlation between medtech revenue growth and P/E multiples has not drastically changed much. In 2019, 5% organic revenue growth was correlated with a 21x P/E multiple, 8% revenue growth was worth 28.5x P/E, and 10% growth was correlated with 33.5x P/E.

Exhibit 3: Expected organic revenue growth Vs P/E multiple – 2019...red dot is 10% growth; green dot 12% growth

Below we plot 2019 P/E multiple (as of 3/1/19) vs the midpoint of 2019 organic revenue growth guidance for large cap medtech*. The linear relationship suggests that 2019E organic revenue growth of 10% was trading at 34x 2019E EPS (red) and 2019E organic revenue growth of 12% was trading at 39x 2019E EPS (green).



Source: Company filings, Bloomberg, BofA Global Research. *Excludes ISRG and ZBH.

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Exhibit 4: Stocks mentioned

Prices and ratings for stocks mentioned in the report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
BSX	BSX US	Boston Scientific	US\$ 67.66	B-1-9
EW	EW US	Edwards Lifesciences	US\$ 92.14	B-1-9
SYK	SYK US	Stryker	US\$ 357.87	B-1-7

Source: BofA Global Research

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Price objective basis & risk

Boston Scientific (BSX)

Our PO of \$70 is derived from 28x our 2025E EPS estimate, which is a premium to the large cap medtech comp group. We believe this multiple is justified given our view of BSX's accelerating earnings growth outlook based on opportunities to drive above average top line growth.

Downside risks to our PO are: 1) Watchman slowdown if ABT becomes more competitive than expected, 2) supply chain/inflationary pressures impact margins more than expected, 3) BSX sees a major setback in a clinical trial or product pipeline failure, 4) unexpected COVID related headwinds.



Edwards Lifesciences (EW)

Our PO of \$105 is based on a 35x 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 35x forward EPS (5x 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.

Stryker (SYK)

Our \$400 PO is based on 30x our 2025 EPS which is a premium to medtech but in line with where higher-quality, higher-growth names trade today.

Downside risks to our PO are a slowdown in hospital capital spending, supply chain disruption, or more inflation pressure on costs and materials. Upside risks to our PO are new product launches and continued share gains driving upside to revenue growth. Moderating inflation/improving supply chains could also drive upside.

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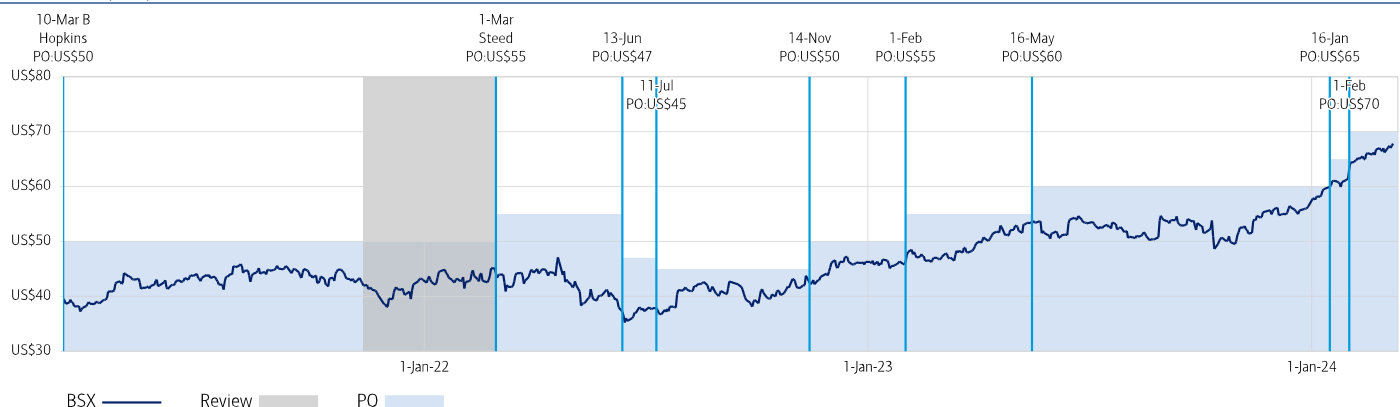
US - Medical Technology & Devices Coverage Cluster

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
	Edwards Lifesciences	EW	EW 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
	GE HealthCare	GEHC	GEHC US	Craig Bijou
	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				
	Embeca	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

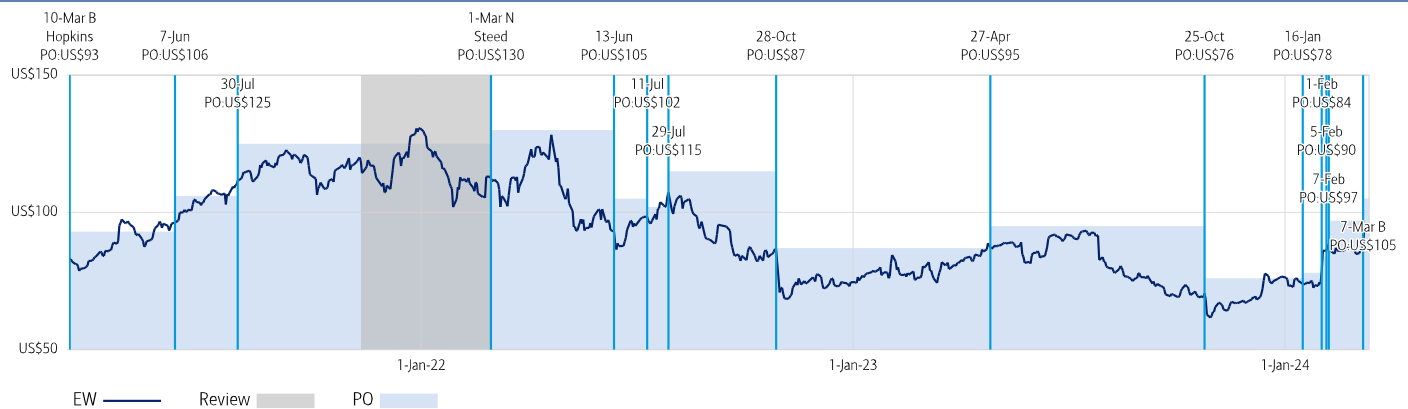
Disclosures

Important Disclosures

Boston Scientific (BSX) Price Chart

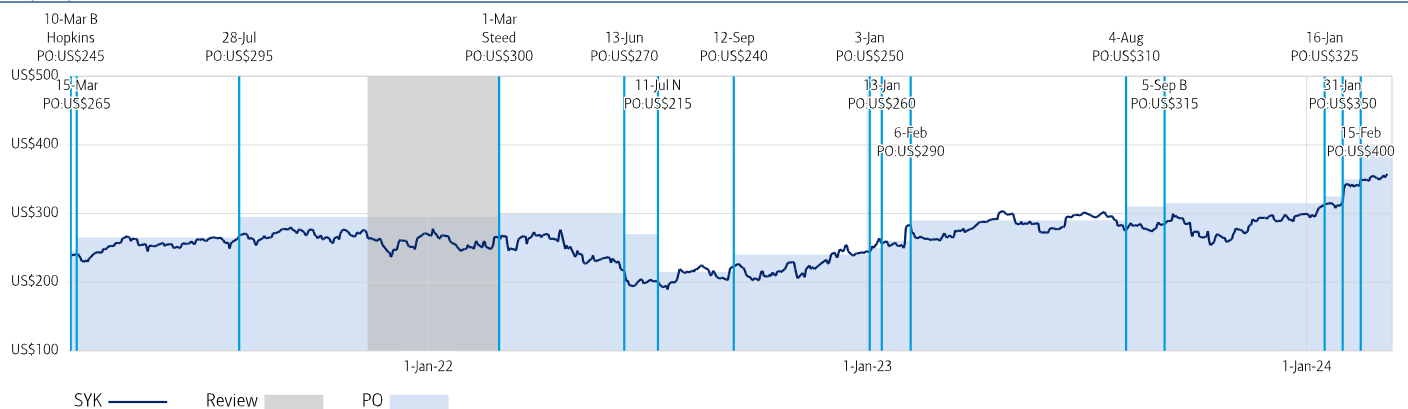


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Edwards Lifesciences (EW) Price Chart

B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Stryker (SYK) 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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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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