



Edwards Lifesciences (EW)

Original Presentation by Jane Nelson
Director, Rocky Mountain Chapter
March 24, 2015

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Historical Perspective

- Presented in Small Talk, March 24, 2015
- Price at time of presentation \$142.34
- Split 2:1 December 2015
- Split adjusted price of \$71.17
- Price March 13, 2020 - \$185.50
- **CAGR for holding period = 21.1%**
- No dividends paid

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What does Edwards do?


Edwards Lifesciences has a narrow focus on structural heart disease and critical care monitoring.

Edwards is the leader in Transcatheter Aortic Valve Replacement (TAVR), Transcatheter and Mitral Tricuspid Therapies (TMTT), and critical care monitoring.

Their products are used in about 100 countries, with manufacturing operations in North America, Europe, Singapore and the Caribbean.


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Strengths

- **Industry pioneer, #1 in heart valves, with over 60% global share of tissue heart valves**
- Leading position in critical care monitoring equipment to complement heart valves
- High barrier to enter field
- **Strong brand and relationships**
 - Proctoring/training
 - Royalty/licensing arrangements
 - Website publishes MDs names




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Strengths

- **R&D is 17-18% of budget**
- An aging population expands potential patient base
- **Edwards has acquired other transcatheter mitral valve technologies to improve and expand their position in this field, keeping them in a leading position**
- Actual results for products have either met or exceeded results of clinical trials



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Weaknesses

- **High prices**
 - Could defer implementation and invite competition from larger companies
 - May provide an obstacle for reimbursement from insurers, Medicare, etc.
- Approval process on new devices can delay implementation of new technologies
- **Increasing competition** from Medtronic, Abbott, and Boston Scientific – all larger companies

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Opportunities

- **EW has been opportunistic in acquiring new technologies related to heart valve replacement**
- Transcatheter and Mitral Tricuspid Therapies (TMTT) present a large opportunity depending on the acceptance and rate of adoption
- Has been increasing margins
- Foreign and emerging market expansion

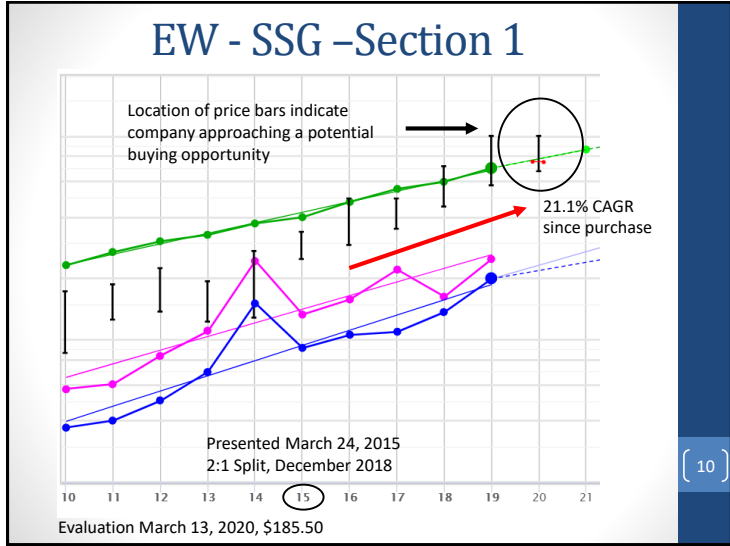
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Threats

- Effect of Coronavirus – deferred procedures and possible product delays
- Regulatory / quality issues
- If TAVRs become interchangeable as stents, could lead to business loss
- Currency translations from worldwide presence
- Not meeting end points in clinical trials
- Share loss from increasing competition Medtronic, Abbott, and Boston Scientific – all larger companies

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EW - SSG –Section 1

Recent Quarterly Figures		FY2019 QuarterEnding (12/19)							
	Sales	EPS							
Latest Quarter	1,174	1.32							
Year Ago Quarter	978	0.03							
Percentage Change	20.1%	4300.0%							

Fundamental Company Data		2015	2016	2017	2018	2019	Growth(%)	Forecast (%)
Historical Sales (\$M)	1.4	2,494	2,964	3,435	3,723	4,348	12.6%	11
Historical EPS (\$)	0	2.25	2.61	2.70	3.38	4.93	18.8%	9.8
Pre-Tax Profit (\$M)	1	622	738	1,035	761	1,167	16.7%	

Preferred Procedure Calculation			
	Defaults	Judgments	Result
Projected 5 Year Sales Growth Rate (Your Forecast):	11.0%	11	7,327
Less Expenses (5 Yr Avg % Pre-Tax Profit Margin):	25.5%	25	-5,495
Less Taxes (Last Yr. Tax Rate):	10.3%	14	-266
Less Preferred Dividends (Current Pref'd Div):	0.0	0.0	0
Projected 5 Yr Total Earnings:			1,575
Divided by Shares Outs. (Current Dil. Shares(M):	212.5	200.0	7.88
5 Year Compound Annual EPS Growth Rate:			9.8%

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EW - SSG –Section 2

Evaluate Management	2015	2016	2017	2018	2019	5 Yr Avg	Trend
% Pre-Tax Profit on Sales	25.0%	24.9%	30.1%	20.5%	26.8%	25.5%	
% Return on Equity	20.0%	20.5%	17.9%	20.9%	27.0%	21.3%	
% Debt To Capital	19.3%	23.9%	26.0%	15.9%	14.1%	19.8%	

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EW - SSG - Section 3

3. PRICE EARNINGS HISTORY as an indicator of the future

Last five years have seen an expansion of the P/E. Can this continue?

Year	Price		Earnings Per Share	Price Earnings Ratio	
	High	Low		High A / C	Low B / C
2015	83.4	61.4	2.25	37.1	27.3
2016	121.8	72.2	2.61	46.6	27.7
2017	121.5	86.5	2.70	45.0	32.1
2018	175.0	110.7	3.38	51.8	32.7
2019	247.6	140.9	4.93	50.2	28.6
AVERAGE		94.3		46.1	29.7
CURRENT/TTM			4.94		

AVERAGE PRICE EARNINGS RATIO: 37.9 CURRENT PRICE EARNINGS RATIO: 37.6

HIGH THIS YEAR: 247.64 LOW THIS YEAR: 165.69 Evaluation March 13, 2020, \$185.50

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EW - SSG - Section 4

4. EVALUATING RISK and REWARD over the next 5 years

A. HIGH PRICE - NEXT 5 YEARS
 Avg. High P/E: 40.0 Estimate High Earnings / Share: 7.87 = Forecasted High Price: 314.7

B. LOW PRICE - NEXT 5 YEARS
 (a) Avg. Low P/E: 26.6 Estimate Low Earnings/Share: 3.65 = Forecasted Low Price: 93.4
 (b) Avg. Low Price of Last 5 Years: 94.3
 (c) Recent Market Low Price: 110.7

Evaluating Risk At A Glance

2018 Low Stock Price: 110.7 52 Week Low Stock Price: 165.7 Zone: **HOLD**
 2019 Low Stock Price: 140.9 Forecasted High Price: 314.7
 (d) Price Dividend Will Support: Indicated Dividend = 0.00 Forecasted Low Price: 140.9
 Closing Price (03/13/20): 185.50 Upside Downside Ratio: 2.9 To 1
 Potential Price Appreciation: 69.7%

C. ZONING using 25%-60%-25% (click to toggle)
 Forecasted High Price: 314.7 Minus Forecast Low Price: 140.9 = 173.8 Range: 25% of Range: 43.5
 Buy Zone: 140.9 to 184.4
 Hold Zone: 184.4 to 271.3
 Sell Zone: 271.3 to 314.7

Closing Stock Price of 185.50 is in the **HOLD** Zone.

D. UPSIDE DOWNSIDE RATIO (POTENTIAL GAIN VS. RISK OR LOSS)
 Forecasted High Price - Closing Price = (314.7 - 185.50) = 129.22 = 2.9 To 1
 Closing Price - Forecasted Low Price = (185.50 - 140.9) = 44.60

E. PRICE TARGET (Note: This shows the potential market price appreciation over the next five years in simple interest terms.)
 Forecasted High Price = 314.7 = (1.6966 X 100) = (169.66 - 100) = 69.7% Appreciation
 Closing Price = 185.50

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EW - SSG - Section 5

5. FIVE-YEAR POTENTIAL

A. CURRENT YIELD

B. AVERAGE YIELD - USING FORECAST HIGH P/E

C. COMPOUND ANNUAL RETURN - USING FORECAST HIGH P/E

Annualized Price Appreciation: 11.2%
 Average Yield: 0.0%
 Annualized Rate of Return: 11.2%

COMPOUND ANNUAL RETURN - USING FORECAST AVERAGE P/E

Annualized Price Appreciation: 6.8%
 Average Yield: 0.0%
 Annualized Rate of Return: 6.8%

SSG Results Summary

Zone: **HOLD**
 Upside Downside Ratio: 2.9 To 1
 Total Return (High P/E): 11.2%
 Projected Return (Avg P/E): 6.8%
 Buy price to satisfy US/DS of 3 to 1 and 15% total return: 166.5
 Buy Below price based on zoning selection: 184.4
 Closing Price (03/13/20): 185.50

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EW - Conclusion

- EW is an innovative, well managed company with good long-term prospects.
- At the time of this evaluation, EW is trading close to the calculated buy price of a cautious SSG. More aggressive assumptions on the SSG (higher growth rate, higher low price, different P/E's) would place Edwards in the buy zone.
- Even though not quite in the buy zone at the time of this evaluation, I would suggest adding a position in Edwards as there is a large opportunity for the company in developing technologies (TMTT).

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Questions



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Comparison to BI Member Sentiment

BetterInvesting Member Sentiment

Member Judgment Forecasts from Recent Studies (Total Completed Studies = 112 in past 90 days)

Sel	Last Update	Sales (%)	EPS (%)	High PE	High EPS	High Price	Low PE	Low EPS	Low Price	Payout (%)	Pot. Return
AVERAGE		11.1	14.3	40.16	9.01	359.76	25.91	3.93	120.09	0.9	10.6

Sales %	EPS %	High P/E	High EPS	High Price	Low P/E	Low EPS	Low Price	Potential Return
11.1	14.3	40.16	9.01	359.76	25.91	3.93	120.09	10.6
11.0	9.8	40.00	7.87	314.72	25.60	4.93	140.90	11.2

Comparison 03.14.20

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