Ticker: EW  Recommendation: Buy

Current Price: $139.04  Price Target: $171.50

Investment Thesis
- Edwards Lifesciences is a market leader and has great financial management.
- 95% percent of sales from products are in leading market positions.

Business Overview
Edwards Lifesciences develops and manufactures heart valves and devices for hemodynamic monitoring. Their heart valves and critical care technologies are market-leaders in approximately 100 countries. They also maintain a pipeline of promising new products to supplement future revenue. By focusing on one sector of the healthcare system, they have a majority holding on the market, which is expanding, as heart disease is currently the leading cause of death in the US.

Brief history of the company
- Located in Irvine, CA
- Project to create an artificial heart began in 1958, but then began focusing on making valves which were less complicated and in demand
- 9,100 employees- employee ownership 6%
- Manufacturing operations in North America, Europe, Singapore, and the Caribbean

Revenue by Product Line (2014)
- 40% Transcatheter Heart Valve Therapy
- 36% Surgical Heart Valve Therapy
- 24% Critical Care

Sales by Geographic Location
- 45% United States
- 32% Europe
- 12% Other Countries
- 11% Japan
Management and Employee Relations
Chairman and Chief Executive Officer
- Michael A. Mussallem
  Chairman since 200 when EW split from Baxter International where he worked from 1979.
Corporate Vice President, Heart Valve Therapy, Strategy & Corporate Development
- Donald E. Bobo, Jr.
  In current position since 2007. Responsible for the global heart valve business and has just assumed more responsibilities.

Management Guidance
Recently invested in CardioKinetics, a private catheter development company, acquiring intellectual property to improve existing catheter-based heart treatments.

Recent News
Edwards Lifesciences recently won a patent lawsuit against Medtronic’s release of a new aortic valve that can be inserted without cracking the chest, a market previously held exclusively by EW. The lawsuit resulted in Medtronic paying $750 million in addition to a percentage of the sales revenue of the product until 2022. The firms also agreed to not sue over transcatheter heart valves for 8 years. Also a 5-year report of success on a minimally invasive heart valve therapy has recently been released.

Macro Factors
Foreign currency devaluation is likely to impact the international sales and lower revenues as it continues to be depressed.

Competition
- Medtronic
- St. Jude’s Medical
- Boston Scientific
- Johnson and Johnson

Portfolio Allocation
- Large Cap
- Value
- Domestic Equity
- Healthcare (Medical Equipment and Supplies) Sector

Sales Growth Rate:
- 2012: 13.16%
- 2013: 7.68%
- 2014: 13.56%
- est. 2015: 8%
- est. 2016: 8%
- est. 2017: 7%
- est. 2018: 5%

Assuming that there will only be an increase in competition, the projected sales growth rates are very conservative even though there are likely to be new, successful products launched along with expanded international demand.

Projected Free Cash Flow:
- 2015: - $693 M
- 2016: $241 M
- 2017: $266 M
- 2018: $561 M
- 2019: $933 M

WAAC Calculation:

<table>
<thead>
<tr>
<th>Risk Free Rate</th>
<th>1.00%</th>
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<tbody>
<tr>
<td>Beta</td>
<td>0.51</td>
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<tr>
<td>Market Risk Premium</td>
<td>10%</td>
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<tr>
<td>Cost of Equity</td>
<td>6.1%</td>
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<tr>
<td>After-Tax Cost of Debt</td>
<td>2.88%</td>
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<tr>
<td>Target Debt to Assets Ratio</td>
<td>20%</td>
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<tr>
<td>Weighted Average Cost of Capital</td>
<td>5.46%</td>
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Valuation:

<table>
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<tr>
<th>Enterprise Value</th>
<th>$22,700</th>
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<tbody>
<tr>
<td>Add Cash</td>
<td>$1,439</td>
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<td>Firm Value</td>
<td>$23,509</td>
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<td>Subtract Debt</td>
<td>-$3,958</td>
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<tr>
<td>Equity Value</td>
<td>$19,551</td>
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<tr>
<td>Number of Shares</td>
<td>114 M</td>
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<tr>
<td>Per-Share Equity Value</td>
<td>$171.50</td>
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Recommendation:
I recommend that the Responsible Investment Fund buy Edwards Lifesciences at its current price of $139 as I feel it is undervalued right now and is a solid company with dominance in a quickly expanding market that has an extremely high barrier to entry for new competitors.