

# Financial Outlook

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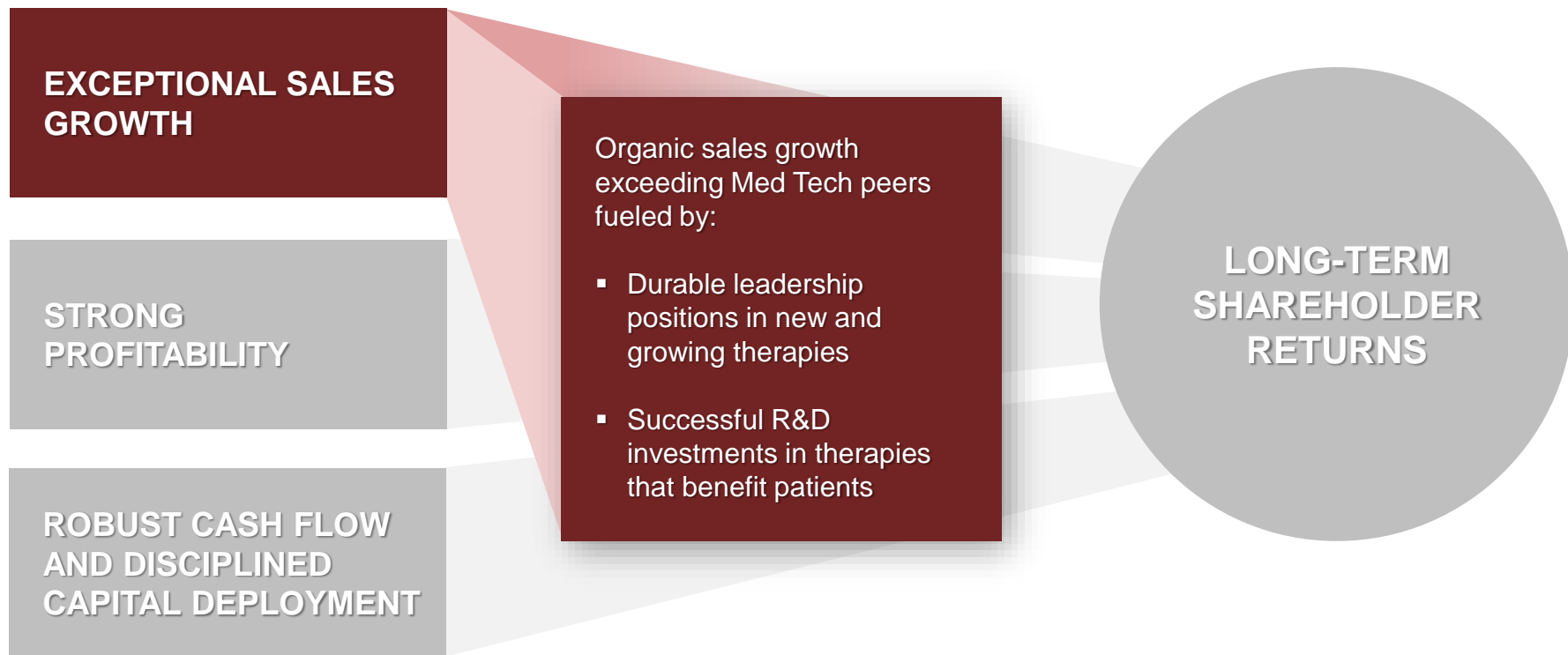


Edwards

# Edwards' Financial Strategy



# Edwards is Poised for Strong Organic Sales Growth



## 2018 Underlying Sales Growth Summary

	2017 Investor Conference	October Guidance
THVT	11-15%	~12.5%
SHVT	2-4%	2-4%
Critical Care	6-8%	Exceed Top End 6-8%
Total Edwards	9-10%	10% YTD Q3

**October Guidance Unchanged**

# 2018 Financial Guidance Summary

(\$ in millions, except earnings per share data)

	2017 Investor Conference	October Guidance
<b>Adjusted Sales</b>	\$3,500-3,900	Higher End \$3,500-3,900
<b>FX Impact on Sales</b>	~\$20 (~0.5% of Sales)	~\$30 (~1% benefit to sales)
<b>Adjusted Gross Profit Margin</b>	74-76%	74-76%
<b>Adjusted Earnings Per Share</b>	\$4.10-4.30	\$4.60-4.75
<b>Adjusted Free Cash Flow</b>	\$700-775	Higher End \$700-775

**October Guidance Unchanged**

# Other 2018 Financial Highlights

- **Corporate tax reform**
  - Reduced effective tax rate 500-600bps
  - More than half of tax savings reinvested to accelerate growth initiatives
- **Significant investments in production capacity**
  - Estimating total 2018 CapEx >\$250 million
  - New facilities in U.S., Costa Rica, Ireland, Dominican Republic
  - Elevated investment forecasted to continue through 2020
- **Edwards made decisions that will impair Cardioband mitral intangible assets**
  - Following the COAPT results, redesigning ACTIVE trial for Cardioband mitral
  - ~\$100 million estimated charge, to be refined and reported with Q4 financial results
- **Share repurchase**
  - \$770 million YTD
  - Q4 \$250 million Accelerated Share Repurchase

# Edwards Expects Double Digit Sales Growth in 2019

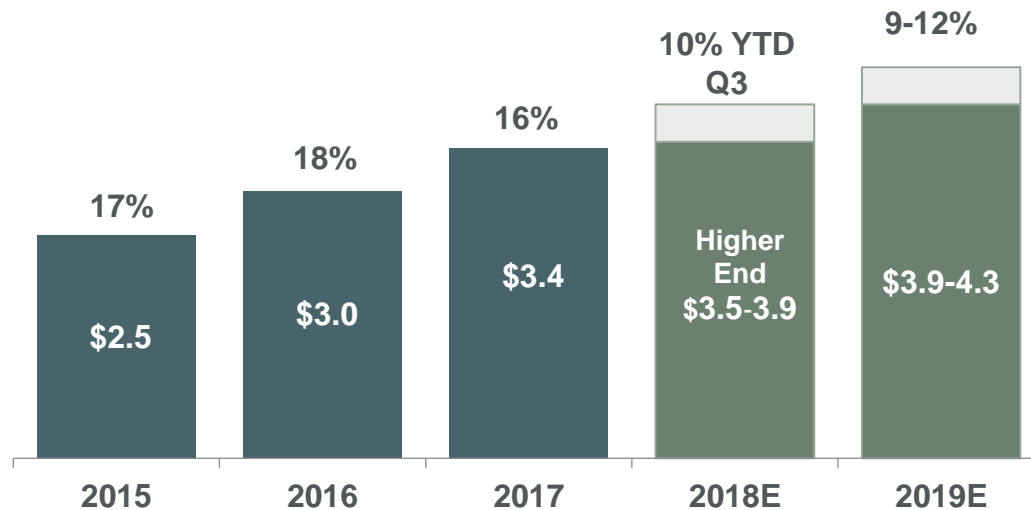
(\$ in billions; underlying growth rates)

Sales growth fueled by **successful R&D investments**

Strong growth across all regions, likely **increasing in Q2**

TMTT expected to begin **contributing to growth**

FX impact would be **~\$90 million unfavorable** in 2019 at current rates



# 2019 Sales Guidance – Product Group

*(\$ in millions at current exchange rates)*

	Underlying Sales	Underlying Growth
Transcatheter Aortic Valve Replacement	\$2,400-2,700	11-15%
Transcatheter Mitral & Tricuspid Therapies	~\$40	NM
Surgical Structural Heart	\$810-850	1-3%
Critical Care	\$670-710	5-7%
<b>Total Edwards</b>	<b>\$3,900-4,300</b>	<b>9-12%</b>



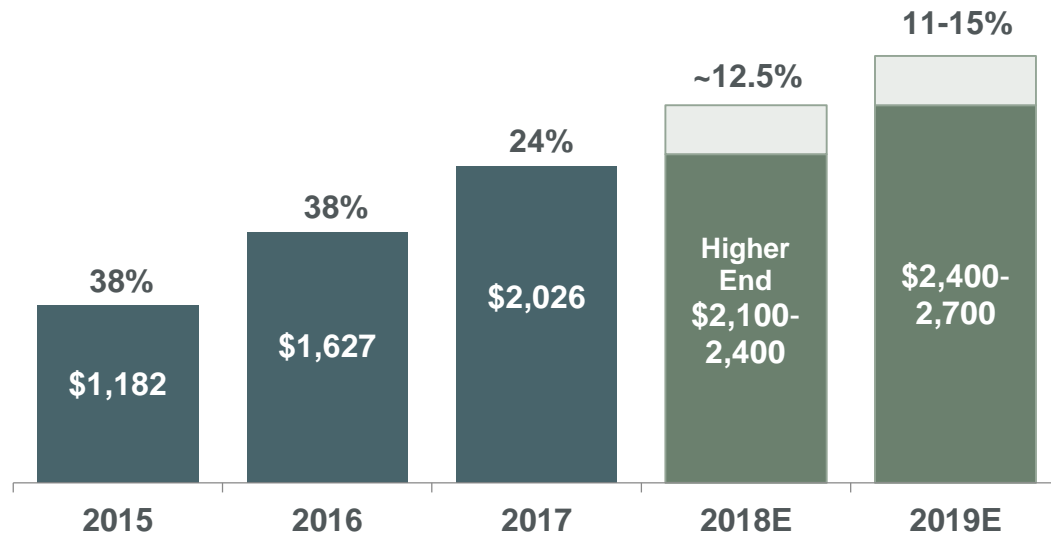
# TAVR Pursuing a Large Underpenetrated Patient Population

(Adjusted sales \$ in millions; underlying growth rates)

## Primary 2019 growth drivers:

- Continuing market growth lifted by **PARTNER 3**
- **New products** (Ultra, CENTERA)
- **Therapy awareness**

Headwinds include increasing competition and reimbursement pressures



## 2019 Key TAVR Assumptions

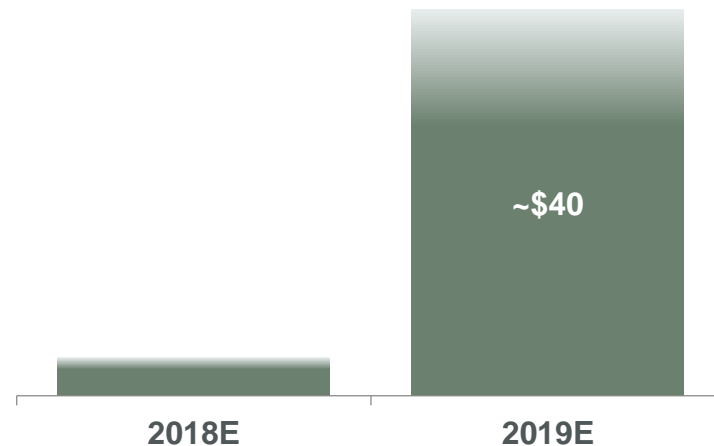
- Global industry growth continues in the mid-teens
- PARTNER 3 results presented in ACC in March; FDA Low Risk approval in late 2019
  - Adjusted Sales guidance reflects expected benefits
- New competition in U.S.
  - Anticipate LOTUS mid-year
  - Anticipate Portico approval in late 2019
  - Expect modest share erosion
- Modest decline in Average Selling Price resulting from volume discounts
- Full year of SAPIEN 3 Ultra sales
- No significant impact from litigation

# TMTT Contributing to Growth While Continuing to Invest

*(Adjusted sales \$ in millions)*

## 2019 Priorities:

- **Increase production** capacity for Cardioband
- **PASCAL Mitral EU launch** by mid-year
- **Advance clinical trials** to build evidence and gain regulatory approvals

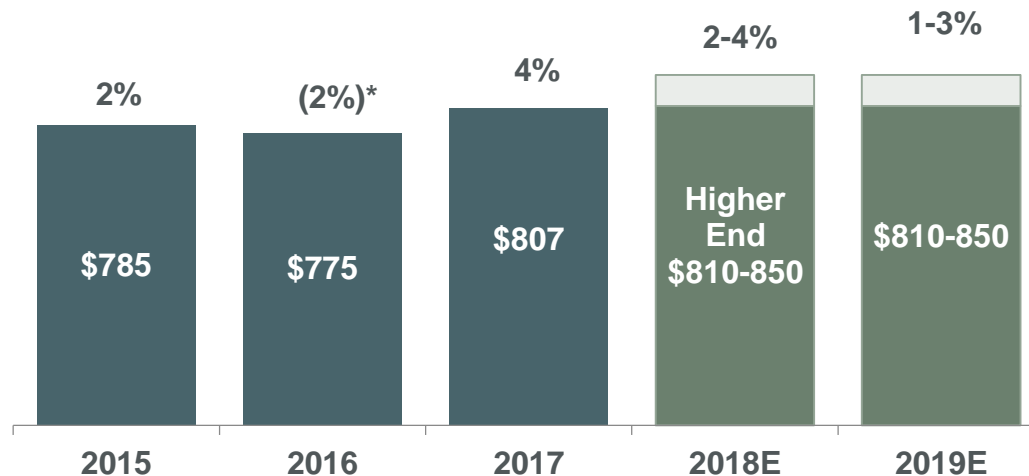


# Surgical Structural Heart Growing Despite TAVR

(Adjusted sales \$ in millions; underlying growth rates)

## 2019 Priorities:

- **INSPIRIS driving sales** as unit volume is tempered by TAVR
- Accelerate **growth in regions** where TAVR is less penetrated
- **Relaunch Harpoon** (minimal sales impact in 2019)

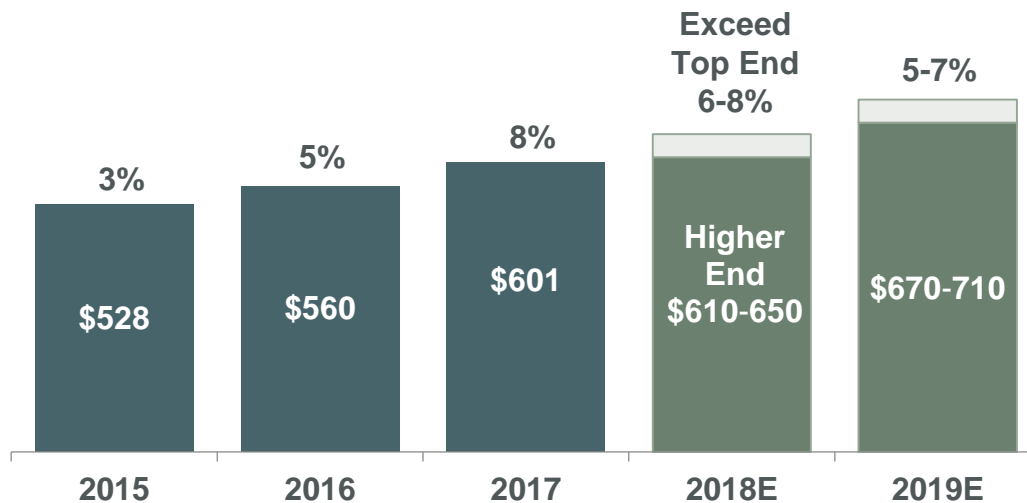


# Critical Care Building the Future with New Technology

(Adjusted sales \$ in millions; underlying growth rates)

## 2019 Priorities:

- Roll out HemoSphere integrated system
- Acumen IQ expands adoption in Enhanced Recovery
- Pioneer smart monitoring



# Edwards Delivers Strong Bottom Line Results



# 2019 Gross Profit Margin Outlook

YOY impact

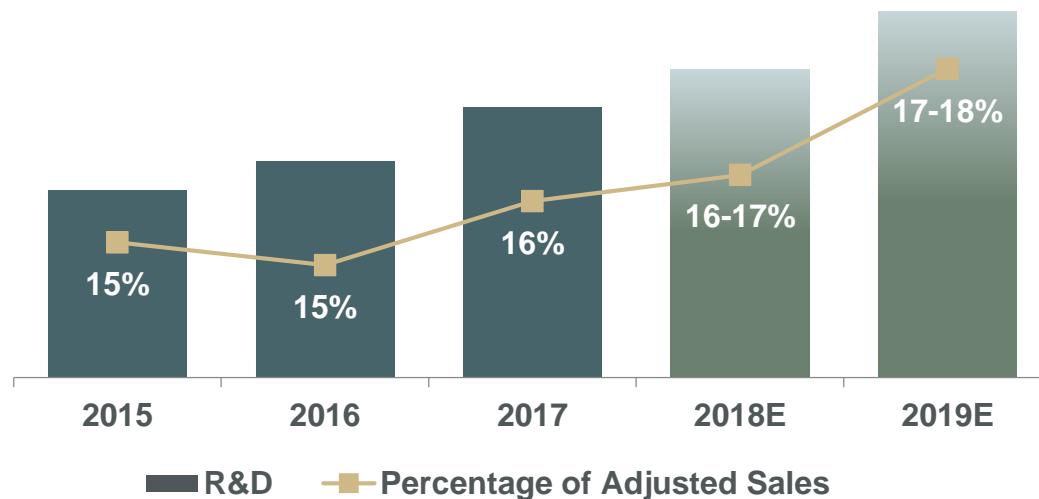
<b>Sales Mix</b>	<p>Increasing mix of transcatheter products</p> <p>Some new product margins below the corporate average (improve as volumes increase)</p>		<b>+</b>
<b>Optimizing Global Supply Chain</b>	Production	<p>Creating redundant supply across our global manufacturing network</p> <p>Increasing capacity by improving efficiency and reducing rework</p> <p>Aligning production with global sales channels</p> <p>Upgrading manufacturing systems across plant network</p>	<b>+/-</b>
	Quality	<p>Integrating acquired products into Edwards' quality management system</p> <p>Consolidating suppliers and instituting alignment with Edwards' quality management system</p>	
<b>Foreign Exchange</b>	Strengthening U.S. dollar would generate hedge income to offset lower contribution from OUS sales		<b>+</b>
<b>Other Factors</b>	<p>Compliance with EU's Medical Device Regulation (MDR ~\$15 million impact)</p> <p>Inflationary pressures on materials and labor</p> <p>Modest price compression driven by volume discounts</p>		<b>-</b>
<b>Net Impact</b>	Adjusted Gross Margin forecasted to be 76-78%, up from ~75% in 2018		<b>+</b>

# Investing Aggressively in R&D to Fuel Growth

**TAVR and TMTT investment** focused on developing new technologies and generating evidence to expand indications

Targeted investments to grow **core businesses**

Approximately 1/3 of R&D expense is allocated to **clinical evidence generation**

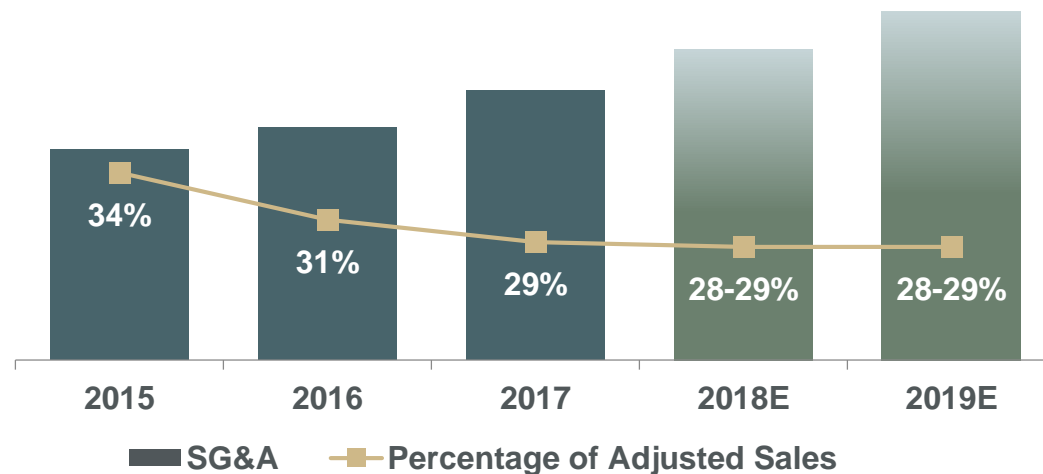




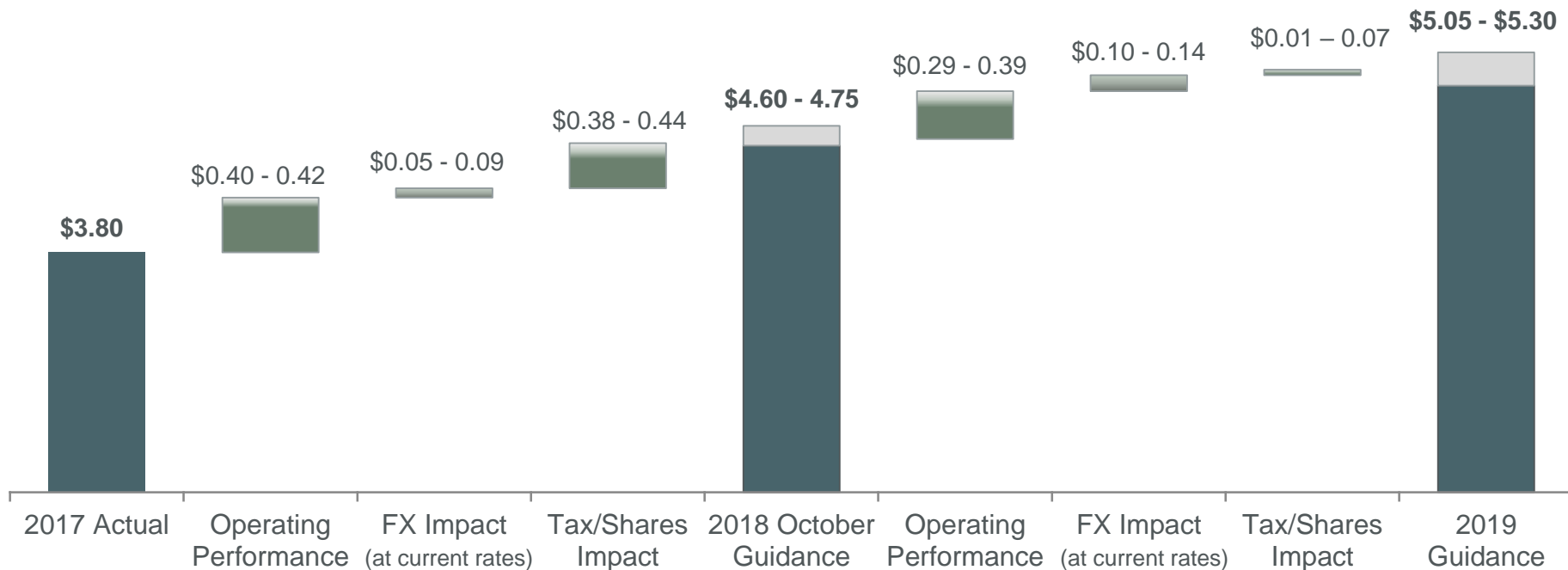
# Focused Strategy Allows Disciplined SG&A Spending While Providing High Level of Clinical Support

Investing in **disease awareness** and **therapy awareness** initiatives

**Ramping** targeted commercial and clinical **teams in Europe** to support TMTT



# Operating Performance Drives Expected Growth in Adjusted EPS



# 2019 Guidance Summary

*(Excludes special items; \$ and shares in millions except Adjusted EPS)*

Adjusted Item	FY 2019	Adjusted Item	FY 2019
<b>Sales</b>	\$3,900-4,300	<b>Operating Margin</b>	29-32%
<b>Underlying growth</b>	9-12%	<b>Net Interest income</b>	~\$10
<b>FX Impact on Sales</b>	~\$90 unfavorable (2% downside to sales)	<b>Tax rate</b>	12-14% (3-4pp ETB benefit)
<b>Gross Profit Margin</b>	76-78%	<b>Adjusted EPS</b>	\$5.05-5.30
<b>SG&amp;A % of Sales</b>	28-29%	<b>Free cash flow</b>	\$800-900
<b>R&amp;D % of Sales</b>	17-18%	<b>Shares Outstanding</b>	211-213

# Longer Term Guidance

	2019	Longer-Term	Commentary
<b>Sales Growth</b>	Considerably higher organic growth than industry average		Organic innovation may produce variable quarterly growth rates
<b>Gross Margin</b>	↑	↑	2019 Gross Profit Margin lifted by FX and mix but tempered by capacity investments; mix and efficiencies expected to lift longer-term margin
<b>R&amp;D % of Sales</b>	↑	↓	Significant investments in clinical trials to expand indications and develop new technologies; future sales growth likely to exceed R&D growth
<b>SG&amp;A % of Sales</b>	=	=	Disciplined focus on leveraging our scale and controlling growth in SG&A, partially offset by additional investments to support innovations
<b>Operating Margin</b>	↑	↑	Modest expansion over time
<b>Tax Rate %</b>	=	↑	Less predictability due to stock option accounting and potential policy changes
<b>Outstanding Shares</b>	Net reduction over time		

# Foreign Currency Hedging Objectives Unchanged

## Cash Flow Exposures

- Protect next four quarters EPS forecasts by minimizing the volatility of USD net income due to FX movements
  - On a monthly basis, partially hedge projected Euro and Yen exposures
  - Partially hedge currencies with lesser exposure
  - Enables more predictable EPS guidance

## Balance Sheet Transaction Exposures

- Balance sheet exposures are created from foreign currency transactions, primarily intercompany payables and receivables
- On a monthly basis hedge 100% of significant actual and estimated exposures

# Edwards Capital Allocation Strategy Fuels Organic Sales Growth and Creates Shareholder Value

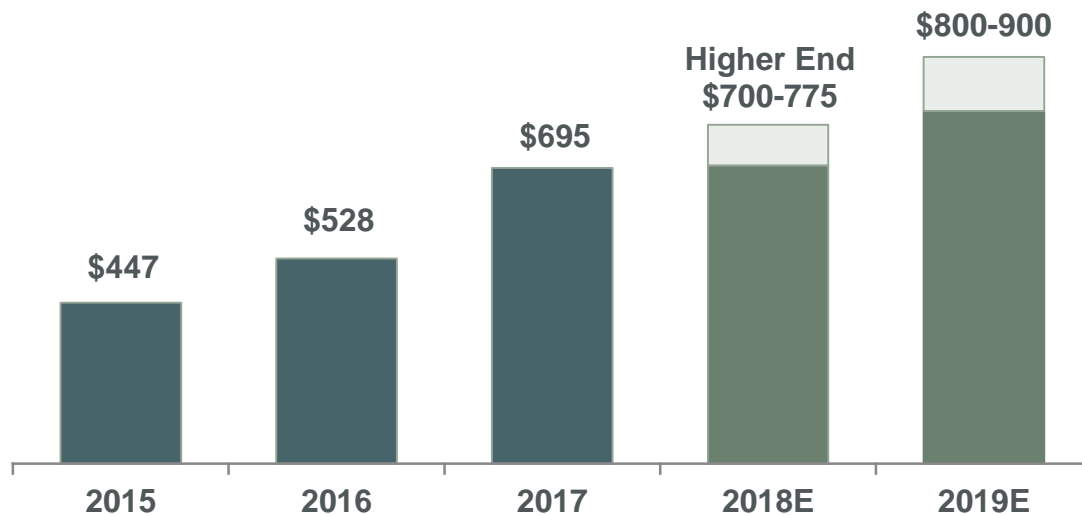


# Robust Free Cash Flow

(\$ in millions; Operating Cash Flow minus Capital Expenditures; excludes special items)

**Continued growth** results in significant cash flows that fund future opportunities

**Capital Expenditures** projected to grow to ~\$350 million in 2019 from >\$250 million in 2018



# Capital Allocation Strategy Fuels Future Growth and Shareholder Value

(\$ in millions)

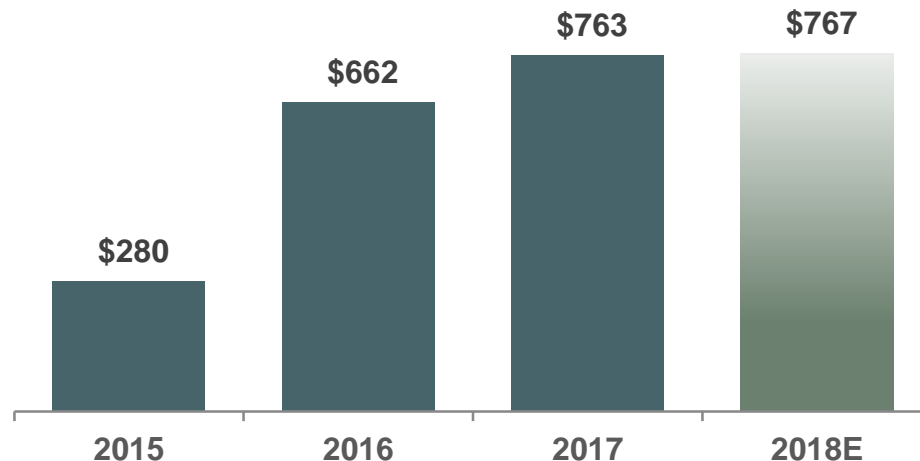
## Priorities:

- Internal R&D and capacity
- External investments
- Share repurchase

**Committed to returning capital** to shareholders through share repurchase

- Offset dilution from employee stock awards
- Opportunistically reduce shares outstanding
- ~\$500 million of repurchase authorization remaining

## Stock Repurchase





# Edwards Has Delivered Exceptional Shareholder Value

