Ask the Rational Investor: "I have read about a less invasive method for heart surgery called transcatheter valve replacement (TAVR), are any publicly-traded stocks involved?"

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In the last few years, an increasing number of news articles focus on a procedure called transcatheter aortic valve replacement (often referred to as TAVR), which has the benefits of being less invasive than traditional open heart surgery leading to fewer complications and faster recoveries.

Dr. Toby Cosgrove, the former CEO and President of the Cleveland Clinic, created many of the patents used as part of the procedure. Dr. Cosgrove earned an international reputation as one of the most accomplished heart surgeons in the world by performing over 22,000 operations.

Publically-traded Edward's Lifesciences (EW), a leader in mitral and aortic valve repair and replacement, purchased many of his patents.

Over the last decade, the procedure's applicable population has increased as the technology has improved. Years ago the TAVR replacement valves did not last as long as traditional surgical valves, which limited eligibility to high-risk patients (usually older than 80) who would likely have complications with open heart surgery.

As technology continues to evolve, an exponentially higher population that is medium-to-high risk patients benefit from the TAVR procedure. Compared to traditional open-heart surgery, the TAVR procedure is strengthening as a preferred treatment option for patients and their doctors which indicates the potential for many years of steady sales growth.

According to Edward Lifesciences and research analysts, the sales that Edward Lifesciences generated in 2013 from TAVR procedures was approximately $720 million. It grew to over $2 billion in 2017 and is expected to increase to mid-double digits for the next few years.

Rapid sales growth and a very high gross margin of nearly 80% will help drive additional operating leverage and earnings per share (EPS) growth. As an example EPS grew from $1.65 to $3.81 from 2013 to 2017 while their operating margins expanded from 18% to 24%.

As the population base expands from high to medium risk patients over the next 5 to 10 years, it is possible that operating margin could develop even further to around 27% on a much higher sales base.

In a capitalist society growth and profit will attract competition.

Edward's Lifesciences competes with Medtronic (MDT) and Boston Scientific (BSX). Both of these companies are working hard to improve their technology and grow their market share. According to my research, it appears that Edward's Lifesciences has a considerable advantage, but this could erode over time as utilization of the procedure increases.

Many of the companies we have discussed in *Ask the Investor* would be considered value or growth at a reasonable price (GARP) investments. Edward's Lifesciences (EW) represents a higher risk investment opportunity due to fast growth, high valuation, and the changing nature of the healthcare industry. As a result, it is critical to discuss the investment merits and risks with your investment counsel.

Source: Company Filings, Goldman Sachs

Beese Fulmer Private Wealth Management was founded in 1980 and is one of Stark County's oldest and largest investment management firms. The company serves high-net-worth individuals, families, and non-profits, and has been ranked as one of the largest money managers in Northeast Ohio.