

DALALBYTES RESEARCH · FIVE-PILLAR ANALYSIS · NYSE: BSX

Boston Scientific

Five-Pillar Analysis: Two Pass, Three Partial

Sunrise and Free Cash Flow pass on category growth and 80% cash conversion. Leadership, Moat, and Iron Fortress grade partial: the 2026 guidance record, two contested category crowns, and Penumbra leverage.

OCTOBER 21, 2026

Reference price \$44.51 (NYSE close, October 21, 2026). Companion to the Boston Scientific investment report of the same date. Educational purposes only, not financial advice.

1 THE SCORECARD

Moderate-to-good fit: 2 of 5 pillars pass, 3 partial. Score 67/100, Selective Positive.

PASS

Sunrise industry, Free Cash Flow

PARTIAL

Leadership, Moat, Iron Fortress

67/100

Overall DalalBytes score

Pillar	Grade	One-line evidence
1. Sunrise industry	PASS	PFA is 78% of US ablation spend and still converting; the EP market is framed at \$13B (2025) to \$20B (2028); LAAC addresses about 5M indicated patients
2. Leadership	PARTIAL	The 2023 long-range plan was beaten early; 2026 brought two guidance cuts, an admitted EP share undercall, and a cyber guidance withdrawal
3. Moat	PARTIAL	Watchman holds about 90% share with 600,000+ patients treated, but the evidence turned mixed and FARAPULSE's PFA share halved from 100% to about 41-50%
4. Iron Fortress	PARTIAL	A- with a positive outlook and 2.02x covenant leverage today; pro forma Penumbra leverage of about 3.3-3.8x and goodwill well above \$18.6B after close
5. Free Cash Flow	PASS	\$3,658M of FY2025 free cash flow at 80% conversion, beating the 70% plan target; about \$3.8B guided for 2026 before the cyberattack warning

2 PILLAR 1, SUNRISE: PASS

The sunrise test asks whether the company's categories are in long adoption curves with headroom left. Boston Scientific passes on the two categories that decide its future and on the breadth behind them.

Pulsed-field ablation is the clearest sunrise in medtech: PFA is 78% of US AFib ablation catheter spend (Qsight, early 2026) and still converting the remainder, and the company frames the EP market growing from about \$13B in 2025 to about \$20B in 2028 as procedure volumes and indications expand. Left atrial appendage closure addresses about 5M patients in the currently indicated population, with a path toward

20M by 2030 if the CHAMPION-AF data supports a first-line label: a category whose treated population is a fraction of its indicated one. Thrombectomy, arriving via Penumbra, is a third under-penetrated category. Behind those, the portfolio holds defensible growth niches: endoscopy in an \$8B market growing about 6%, drug-coated balloons in a US category Boston Scientific created in 2024, and peripheral nerve stimulation inside neuromodulation.

Category creation is the company's verified skill, proven twice at scale: FARAPULSE created PFA as a commercial category (500,000 cases by September 2025) and Watchman created LAAC. The sunrise grade does not require Boston Scientific to keep its monopoly shares, only that the categories keep rising. On the evidence, they do. PASS.

3 PILLAR 2, LEADERSHIP: PARTIAL

The leadership test is whether they do what they said, in order, on dates. Mike Mahoney's long record is genuinely strong: chairman and CEO since 2012, three straight years of 20%+ adjusted EPS growth through FY2025, and FARAPULSE scaled from a small acquisition into a \$3,325M business. The dated-promise ledger is where the grade is decided, and it splits cleanly in two.

Commitment	Date set	Delivered	Score
2023 LRP organic growth of 8-10% CAGR (2024-2026)	Sep 2023	+16.4% and +15.8% in 2024-2025	BEATEN
2023 LRP adjusted operating margin to about 28%	Sep 2023	28.0% in FY2025	BEATEN EARLY
2023 LRP FCF conversion of about 70% by 2026	Sep 2023	71% in FY2024, 80% in FY2025	BEATEN
FY2026 adjusted EPS guide of \$3.43-3.49	Feb 4, 2026	Cut to \$3.34-3.41 (Apr 22), cut to \$3.28-3.32 (Jul 29), then guidance said to be unlikely to be met (Sep 8)	MISSED, TWICE, THEN WITHDRAWN
Watchman mid-teens growth for 2026	Feb-Apr 2026	Cut to flat to low-single-digit (Jul 29); H2 US procedures guided down mid- to high-single digits	MISSED
US EP competitive share call	Through H1 2026	Mahoney, July 29, 2026: "we did undercall the competitive pressures in the U.S."	ADMITTED MISS
EMPOWER leadless approval expected in 2025	2024 submission	No approval as of October 2026	MISSED

The mitigants are real and belong in the grade. The 2026 failures are forecasting failures inside contested categories, not delivery failures: the organization still shipped FARAPPOINT (January 2026), the persistent-AF label (July 2025), and an 80% FCF conversion year. Mahoney bought 186,240 shares for about \$9.0M at \$48.33 on August 3, 2026, reportedly not under a 10b5-1 plan, three weeks before the cyberattack was detected: that is a costly signal, whatever the print that followed did to it. Succession is being built in daylight (Fitzgerald to COO on January 1, 2027 under the October 7, 2026 reorganization; CFO Jon Monson seated June 30, 2025).

Against: a cyberattack that disrupted global manufacturing and ordering exposed an operational single point of failure on this leadership's watch; 2025 compensation of \$23.5M (up 10%) and a 369:1 pay ratio sit badly against a halved stock; and a securities class action (filed March 5, 2026; amended July 20, 2026 with a Section 20A claim against a current officer) now litigates the guidance record. A leadership team that beat its plan early and then missed its own year twice in seven months grades PARTIAL, with the recovery path explicit in Section 7.

4 PILLAR 3, MOAT: PARTIAL

The moat evidence, unit by unit, is a study in contested crowns.

Position	Moat evidence	Erosion evidence
Watchman (LAAC)	About 90% category share; 600,000+ patients treated; physician training and referral networks built over a decade	CHAMPION-AF safety win carried a higher ischemic stroke rate (3.2% vs 2.0%); CLOSURE-AF failed non-inferiority; a Sep 2026 meta-analysis shows ischemic stroke IRR 1.34; Abbott's Amulet 360 has a CE Mark (Aug 2026) and a completed FDA submission
FARAPULSE (PFA)	First to market (CE 2021, FDA Jan 2024); 500,000 cases by Sep 2025; installed workflow and training base	US PFA spend share from 100% (2023) to about 41% (Qsight, early 2026); Medtronic's Affera franchise crossed \$2B TTM; Sphere-360 targets the single-shot lane; Abbott Volt 2.0 in full US release
CRM	LUX-Dx diagnostics growing low-double digits	No leadless pacing answer until at least 2027; EMPOWER unapproved; two Class I hardware files (ACCOLADE, ENDOTAK)
Endoscopy, Neuromodulation, IO&E	Category leadership and breadth; AGENT held the US coronary DCB category alone from Mar 2024 to Sep 2026	Crowded fields; niches defensible rather than dominant; Axonics SNM recovery slower than planned

The pattern: Boston Scientific's moats are workflow, training, and evidence moats, not patent walls. They are real, they compound with procedure volume, and they are being tested simultaneously in the two units that matter most, with a third (CRM) structurally behind. A moat that holds share at 90% can still lose its growth; a moat that falls from 100% to the low 40s has already lost its pricing premise. PARTIAL, with the CHAMPION label decision the single largest moat event of 2027.

5 PILLAR 4, IRON FORTRESS: PARTIAL

The fortress today: Fitch A-, outlook revised to Positive in January 2026; a leverage covenant test of 2.02x against a 4.00x maximum at June 30, 2026; equity of \$25,172M; an undrawn \$3B revolver plus a \$2B 364-day facility arranged in February 2026; and a \$6B delayed-draw term loan that can only fund at the Penumbra closing. No dividend obligation competes with the balance sheet, and stock-based compensation is modest (\$299M in FY2025 against \$20,074M of sales).

The fortress after Penumbra is a different structure. Cash fell from \$1,965M (December 31, 2025) to \$539M (June 30, 2026) before the deal's roughly \$11B cash leg is funded largely with new debt. Pro forma leverage is estimated at about 3.8x EBITDA by third parties, with Fitch projecting a peak near 3.3x at the end of 2026. Goodwill of \$18,640M, already 74% of equity, rises materially on a \$14.5B acquisition. The contingent file thickens at the same time: a legal accrual of \$282M at June 30, 2026, a new SCS product-liability MDL (No. 3181, consolidated June 5, 2026), six Class I matters across 2025-2026, and \$636M of gross unrecognized tax benefits (partly offset by tax holidays worth \$540M in 2025, eligibility confirmed through 2033).

Nothing here is fragile. The debt is termed out, the covenants have two turns of headroom, and the company generates the cash to delever. But a fortress pillar grades the balance sheet that exists after committed decisions, not before them, and after Penumbra this is a solid investment-grade balance sheet with a deleveraging job, not a fortress. PARTIAL.

6 PILLAR 5, FREE CASH FLOW: PASS

The cash record is the strongest pillar in the file. Free cash flow of \$938M (FY2022), \$1,792M (FY2023), \$2,645M (FY2024), and \$3,658M (FY2025) converts adjusted net income at 80% in FY2025, beating the long-range plan's about 70% target by ten points. Operating cash flow of \$4,534M in FY2025 funded the acquisition cadence (Bolt, SoniVie, and the Nalu close in January 2026) without a dividend or a buyback competing for the cash until May 2026.

The forward markers hold up under stress-testing. Management guided about \$3.8B of free cash flow for FY2026 on the Q2 call, before the cyberattack; H1 2026 delivered \$1,450M in the seasonally lighter half. At the \$44.51 reference price the stock offers about a 5.6% free cash flow yield on that framework, a yield the market usually reserves for ex-growth device names. Leakage is modest: stock-based compensation of \$299M in FY2025 is 1.5% of sales, and capex intensity is contained for a device manufacturer.

The one deduction considered and rejected: the May 2026 \$2B accelerated repurchase at \$52.68 (now roughly \$320M underwater at the reference price) is a capital allocation timing failure, graded under Leadership and Iron Fortress. It does not change the cash generation fact this pillar grades. The engine

produces cash in bad years as well as good ones. PASS.

7 WHAT WOULD CHANGE THE GRADES

Pillar	Upgrade trigger	Downgrade trigger
Sunrise	CHAMPION supports a first-line LAAC label, expanding the indicated population toward 20M; thrombectomy volumes confirm Penumbra's market growth	PFA procedure growth stalls as conversion completes, or LAAC referrals keep falling on the stroke signal
Leadership	Reinstated FY2026 guidance (Oct 28) met, then a clean 2027 guide delivered at the Q4 call; no further cuts	A third guidance failure, or the securities suit surviving dismissal with officer-level findings
Moat	EP share stabilizes in the 40s on Qsight data; FARAFLEX approval on schedule; Amulet 360 US launch delayed or contained	EP share into the 30s; Amulet 360 takes double-digit US LAAC share in 2027; another Class I in Watchman or CRM
Iron Fortress	Penumbra closes at or below about 3.3x leverage with a dated deleveraging path; buyback resumes only after leverage falls	Leverage guided above about 3.8x, a goodwill impairment, or the SCS MDL forcing a material reserve
Free Cash Flow	FY2026 FCF lands near the \$3.8B guide despite the cyberattack; conversion holds at or above 75%	Cyberattack costs recur in Q4, or restructuring charges (\$700-800M planned) overrun without the savings arriving

The five-pillar read and the report verdict agree: Boston Scientific is a good company file, 67/100, Selective Positive. The cash engine and the categories pass outright. What is partial is everything 2026 touched: the forecaster, the two crowns, and, once Penumbra closes, the fortress.