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Reason for Report:

Change in Price Target

Changes	Previous	Current
Rating	--	Neutral
Price Tgt	\$27.00	\$33.00
FY11E Rev (mil)	\$415.0	\$429.4
FY12E Rev (mil)	\$432.5	\$463.4
FY11E EPS	\$1.35	\$1.50
FY12E EPS	\$1.50	\$1.63
Price		\$30.43
52 Week High		\$40.65
52 Week Low		\$22.33
12-Month Price Target		\$33.00
3.9x EV/CY12 Rev (\$215M net cash, 61.2M shares)		
Shares Out (mil)		61.2
Market Cap. (mil)		\$1,862.3
Avg Daily Vol (000)		845
Book Value/Share		\$9.83
Net Cash Per Share		\$1.57
Debt to Total Capital		0%
Yield:		0.00%
Est LT EPS Growth		19%
P/E to Est LT EPS Growth		1.0x
Fiscal Year End:		Dec

Rev (mil)	2010A	2011E	2012E
Mar	\$99.3A	\$99.5A	\$113.0E
Jun	\$95.1A	\$111.2A	\$119.3E
Sep	\$91.0A	\$104.3E	\$110.5E
Dec	\$97.6A	\$114.4E	\$120.6E
FY	\$383.0A	\$429.4E	\$463.4E
CY	\$383.0A	\$429.4E	\$463.4E
FY RM	4.9x	4.3x	4.0x
CY RM	4.9x	4.3x	4.0x

EPS	2010A	2011E	2012E
Mar	\$0.29A	\$0.34A	\$0.39E
Jun	\$0.34A	\$0.44A	\$0.42E
Sep	\$0.32A	\$0.34E	\$0.38E
Dec	\$0.28A	\$0.38E	\$0.43E
FY	\$1.23A	\$1.50E	\$1.63E
CY	\$1.23A	\$1.50E	\$1.63E
FY P/E	24.7x	20.3x	18.7x
CY P/E	24.7x	20.3x	18.7x

Sales & EPS exclude discontinued operations.
proforma EPS (ex-amortization, stock comp, one-time charges, ASC 470-20)

Thoratec Corp.
Neutral

(THOR – \$30.43)

Interest in VAD Market Remains Strong; US Market Development is Key

CONCLUSION:

We are incrementally more positive on Neutral-rated THOR after attending the HFSA convention in Boston. We continue to view the under-penetration of VADs in the US as an opportunity for THOR as we consider barriers to further adoption as being “handle-able”. We are taking the opportunity to update our estimates based on Q2 results and our current sentiment. We are increasing our price target to \$33/share to reflect current Medtech multiples and our updated estimates.

- What:** We attended HFSA, a meeting for medical professionals involved in the treatment of heart failure (HF): transplant surgeons, HF specialists, HF nurses etc. The meeting has a 4-day program addressing the overall treatments for HF including LVADs, CRT, biotech, and pharma alternatives. For us, the most interesting session was entitled “Heart Failure and VADs: Does Extended Support Change the Game?” The discussion helped to better frame the difficulty in uptake of VADs (screening for substance abuse, depression, care giver access, and intangibles such as “commitment”). Bottom line, we better understood the low penetration of the target HF population for LVADs and also realized that some of the medical biases acting as gating factors are likely to be minimized as time passes and broader education of current clinical data take place. In other words, we see the opportunity to better penetrate the addressable market as ultimately feasible; we expect the LVAD market to continue to expand at >15% rates.

- What’s new:** The annual meeting of HF specialists (Heart Failure Society of America, HFSA) continued to move the discussion forward as long term care of VAD patients drew a large crowd (~200) of interested parties. The positive outcomes from implantation of the new continuous flow VADs (predominantly THOR in the US; THOR and HTWR OUS) give us more confidence that the referral physician network will increasingly see VADs as a legitimate therapy for their HF patients.

- Outlook:** While we remain Neutral on THOR we are warming to the stock. Still with a nearly 100% VAD market share in the US likely to be partially shared with HTWR in 2012, we choose to remain on the sidelines in what remains a challenging medical device environment. We are updating our model to reflect the Q2 results and our 2H11 sentiment.

INVESTMENT RECOMMENDATION:

We remain at a Neutral rating. We are raising our price target from \$27/share to \$33/share. Our new target is based on an EV/2012 revenue multiple of 3.9x, which is in line with the top quartile of our comp group with similar growth trajectories and market opportunities. We are changing our valuation methodology (from PE basis previously) as we feel a revenue based valuation is more appropriate given the different earnings calculations utilized by THOR.

RISKS TO ACHIEVEMENT OF TARGET PRICE:

Slower than expected ramp in HeartMate II sales for DT and competitive threats.

COMPANY DESCRIPTION:

Thoratec develops mechanical circulatory support devices.

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				2010A				2011E				2012E							
	2007	2008	2009	Q1:10	Q2:10	Q3:10	Q4:10	2010	Q1:11	Q2:11	Q3:11E	Q4:11E	2011E	Q1:12E	Q2:12E	Q3:12E	Q4:12E	2012E	2013E
Assets																			
Cash & equivalents	\$20.7	\$107.1	\$26.5	\$31.8	\$37.4	\$50.7	\$56.9	\$56.9	\$65.0	\$96.2	\$32.7	\$47.8	\$47.8	\$67.8	\$85.5	\$113.1	\$132.4	\$132.4	\$230.5
Short-term Investments & restricted cash	\$197.7	\$141.6	\$279.2	\$282.4	\$314.7	\$337.9	\$391.3	\$391.3	\$353.3	\$182.5	\$182.5	\$182.5	\$182.5	\$182.5	\$182.5	\$182.5	\$182.5	\$182.5	\$182.5
Accounts Receivable	45.4	55.1	\$66.1	73.6	50.8	50.0	57.2	\$57.2	56.8	60.7	57.1	62.7	\$62.7	61.9	65.3	60.6	63.4	\$63.4	\$68.5
Inventories	54.9	61.4	\$66.9	63.6	48.5	57.3	59.8	\$59.8	66.4	62.1	59.5	64.1	\$64.1	62.3	65.3	60.2	63.6	\$63.6	\$67.8
Other Current Assets	12.5	15.3	\$19.2	23.2	98.2	89.9	24.9	\$24.9	18.7	19.6	19.6	19.6	\$19.6	19.6	19.6	19.6	19.6	\$19.6	\$19.6
Total Current Assets	\$331.1	\$380.4	\$457.9	\$474.5	\$549.7	\$585.7	\$590.1	\$590.1	\$560.1	\$421.1	\$351.4	\$376.6	\$376.6	\$394.1	\$418.3	\$435.9	\$461.5	\$461.5	\$568.8
Property, Plant & Equipment, net	46.5	50.1	\$51.9	52.3	37.1	37.7	38.1	\$38.1	39.1	40.4	43.9	47.6	\$47.6	51.2	54.9	58.7	62.6	\$62.6	\$77.6
Goodwill				99.3	95.0	95.0	95.0	\$95.0	95.0	95.0	95.0	95.0	\$95.0	95.0	95.0	95.0	95.0	\$95.0	\$95.0
Intangibles	220.1	207.9	\$199.1	98.7	93.4	91.0	88.5	\$88.5	86.2	84.0	191.6	189.0	\$189.0	186.5	184.0	181.5	179.0	\$179.0	\$169.0
Long-term Investments				23.9	24.2	21.6	21.4	\$21.4	19.7	19.8	19.8	19.8	\$19.8	19.8	19.8	19.8	19.8	\$19.8	\$19.8
Other long-term assets	16.0	45.7	\$37.7	10.9	9.9	4.0	4.7	\$4.7	5.1	4.5	4.5	4.5	\$4.5	4.5	4.5	4.5	4.5	\$4.5	\$4.5
Total Assets	\$613.7	\$684.1	\$746.6	\$759.6	\$809.3	\$835.0	\$837.7	\$837.7	\$805.2	\$664.9	\$706.2	\$732.5	\$732.5	\$751.2	\$776.5	\$795.5	\$822.5	\$822.5	\$934.8
Liabilities & Equity																			
Accounts Payable	\$9.8	\$10.6	\$8.5	\$12.6	\$16.2	\$15.8	\$13.5	\$13.5	\$15.1	\$10.8	\$16.5	\$17.4	\$17.4	\$16.5	\$18.1	\$17.1	\$18.0	\$18.0	\$19.2
Notes & Current LTD	--	--	\$0.0	--	\$133.9	\$136.1	\$138.2	\$138.2	\$140.1	--	--	--	\$0.0	--	--	--	--	\$0.0	\$0.0
Other Accrued Liabilities	\$19.6	\$38.0	\$37.2	\$27.8	\$35.3	\$43.0	\$35.4	\$35.4	\$25.3	\$25.0	\$41.7	\$45.5	\$45.5	\$42.5	\$41.5	\$39.5	\$39.7	\$39.7	\$41.5
Total Current Liabilities	\$29.4	\$48.5	\$45.7	\$40.4	\$185.3	\$194.8	\$187.0	\$187.0	\$180.6	\$35.8	\$58.2	\$62.9	\$62.9	\$59.0	\$59.7	\$56.5	\$57.7	\$57.7	\$60.7
Long-term Debt*	\$143.8	\$124.1	\$131.9	\$134.0	--	\$26.6	\$20.1	\$20.1	\$18.6	--	--	--	--	--	--	--	--	--	--
Deferals & Other	\$42.6	\$45.2	\$43.8	41.4	38.2	7.8	9.3	\$9.3	9.9	27.2	26.4	25.6	25.6	24.8	24.1	23.4	22.7	22.7	20.2
Total Liabilities	\$216	\$218	\$221.4	\$215.8	\$223.5	\$229.3	\$216.4	\$216.4	\$209.1	\$63.0	\$84.6	\$88.5	\$88	\$83.9	\$83.8	\$79.9	\$80.4	\$80.4	\$81
Shareholders' Equity*	398.0	466.3	525.1	543.8	585.8	605.7	621.4	621.4	596.2	601.9	621.7	644.1	644.1	667.3	692.8	715.5	742.1	742.1	853.9
Total Liabilities & Equity	\$613.7	\$684.1	\$746.6	\$759.6	\$809.3	\$835.0	\$837.7	\$837.7	\$805.2	\$664.9	\$706.2	\$732.5	\$732.5	\$751.2	\$776.5	\$795.5	\$822.5	\$822.5	\$934.8

*Adjusted for APB14-1 beginning in Q4:08; includes assumed as converted value

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Thoratec
Cash Flow Statement (\$MM)
9/23/2011

	2007	2008	2009	2010A				2010	2011E				2011E	2012E				2012E	2013E			
				Q1:10	Q2:10	Q3:10	Q4:10		Q1:11	Q2:11	Q3:11E	Q4:11E		Q1:12E	Q2:12E	Q3:12E	Q4:12E					
Cash flows from operating activities																						
Net Income	3.2	22.5	28.6	12.4	18.5	15.5	12.6	59.0	16.5	21.8	16.9	19.4	74.5	19.9	21.9	19.2	22.8	83.7	97.4			
Depreciation & Amortization	21.8	23.7	21.7	5.2	3.0	4.1	4.2	16.5	4.1	4.1	3.4	3.6	15.2	3.7	3.7	3.8	3.8	15.0	15.0			
Stock-based Compensation	11.4	10.9	13.9	4.7	2.0	3.0	3.0	12.7	4.0	3.8	2.9	3.0	13.7	3.4	3.6	3.6	3.8	14.4	14.4			
Non-cash interest expense				2.4	1.7	3.0	1.3	8.4	2.8	0.0			2.8									
Other	(5.6)	0.1	0.5	1.7	0.8	1.6	(2.1)	2.0	0.6	(0.1)	-	-	0.4	-	-	-	-					
Changes in operating assets and liabilities:																						
Receivables	(3.4)	(12.6)	(10.7)	(8.0)	3.7	1.2	(7.3)	(10.4)	1.2	(3.6)	3.6	(5.5)	(4.4)	0.8	(3.4)	4.8	(2.9)	(0.8)	(5.0)			
Inventories	(8.8)	(10.4)	(7.8)	2.1	(8.2)	(9.9)	(3.0)	(18.9)	(6.8)	3.6	2.7	(4.6)	(5.1)	1.8	(3.0)	5.1	(3.4)	0.4	(4.2)			
Accounts Payable & Other Liabilities	(0.1)	16.2	(1.5)	(3.8)	12.1	6.7	(0.1)	15.0	(8.1)	(2.9)	21.6	3.9	14.5	(4.6)	(0.1)	(3.8)	0.5	(8.1)	0.4			
Other	(4.2)	0.7	4.4	(6.0)	(15.6)	7.4	3.9	(10.2)	4.2	(0.9)	-	-	3.3	-	-	-	-					
Net cash provided by operating activities	14.4	51.0	49.1	10.9	17.9	32.5	12.6	74.0	18.3	25.9	51.0	19.8	115.0	24.8	22.6	32.7	24.5	104.6	118.1			
Cash flows from investing activities																						
Capital Expenditures	(6.7)	(10.4)	(11.8)	(2.0)	(0.1)	(0.7)	(1.4)	(4.2)	(1.8)	(2.6)	(4.5)	(4.7)	(13.7)	(4.8)	(4.9)	(5.1)	(5.2)	(20.0)	(20.0)			
Net change in investments				(36.9)	(33.8)	(21.6)	(23.2)	(115.6)	38.6	169.8			208.4									
Net Acquisition/Divestitures	-	-	-	(1.4)	-	-	-	(1.4)	-	-	(110.0)	-	(110.0)	-	-	-	-	-	-	-		
Net Investment In Other Assets	(71.4)	17.7	(129.4)	32.1	-	2.8	(32.1)	2.8	-	-	-	-	-	-	-	-	-	-	-	-		
Net cash provided by investing activities	(78.0)	7.3	(141.2)	(8.3)	(33.9)	(19.6)	(56.7)	(118.5)	36.8	167.2	(114.5)	(4.7)	84.7	(4.8)	(4.9)	(5.1)	(5.2)	(20.0)	(20.0)			
Cash flows from financing activities																						
Net Proceeds/(Payments) from Debt	-	-	-	-	(5.3)	(0.0)	-	(5.4)	-	(164.4)	-	-	(164.4)	-	-	-	-	-	-	-		
Net proceeds from issuance of equity	17.0	28.1	11.7	7.0	26.0	0.4	(7.1)	26.3	6.1	2.7	-	-	8.8	-	-	-	-	-	-			
Stock Repurchases	-	-	-	(4.2)	(0.3)	(0.2)	(1.6)	(6.3)	(53.5)	(0.2)			(53.7)									
Other	-	-	-	-	-	-	9.5	9.5	0.7	0.2	-	-	0.9	-	-	-	-	-	-			
Net cash provided by financing activities	17.0	28.1	11.7	2.7	20.3	0.2	0.8	24.1	(46.6)	(161.7)	-	-	(208.3)	-	-	-	-	-	-			
Net cash provided by discontinued operations							49.7	49.7														
Effect of FX	(0.0)	(0.1)	(0.1)	(0.0)	(0.1)	0.1	(0.1)	(0.1)	(0.4)	(0.1)	-	-	(0.5)	-	-	-	-	-	-			
Net Cash Flow	(46.8)	86.4	(80.6)	5.3	4.3	13.3	6.2	29.1	8.1	31.2	(63.5)	15.1	(9.1)	20.0	17.7	27.6	19.3	84.6	98.1			
Ending Cash Balance	20.7	107.1	26.5	31.8	37.4	50.7	56.9	56.9	65.0	96.2	32.7	47.8	47.8	67.8	85.5	113.1	132.4	132.4	230.5			

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Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OW]	352	56.10	69	19.60
HOLD [N]	240	38.20	22	9.17
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