

Smaller device makers stay serene in '17



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The awesome power wielded by the payers is exemplified by the impressive performance of Exact Sciences shares over the last six months. Shares in the maker of the colorectal cancer stool test Cologuard have soared in value, adding nearly \$3bn to its market cap, thanks to a 180-degree reversal in US reimbursement decisions.

Elsewhere mid-size and small medtech companies have had a fairly easy six months, with only two mid-caps falling and even then only by 1% each. So far 2017 has done nothing to dispel medtech's reputation as a safe and steady if unspectacular industry for investment (see tables).

Where there's muck there's brass

In June 2016 the US Preventive Services Task Force, an independent panel of experts that determines whether disease prevention services are effective, listed Cologuard on the same level as other colorectal screening tests, reversing an earlier decision and prompting more insurance companies to cover the test.

Mid cap (\$2.5-10bn) medtech companies: top risers and fallers in H1 2017				
	Jun 30 share price	H1 chg	Jun 30 market cap (\$bn)	H1 chg (\$bn)
Top 5 risers				
Exact Sciences	\$35.37	165%	4.18	2.73
Ambu	DKr420	49%	2.53	0.52
Hill-Rom	\$79.61	39%	5.24	1.46
Penumbra	\$87.75	38%	2.95	0.93
Straumann	SFr545.5	37%	8.66	2.26
Fallers				
Cantel Medical	\$77.91	(1%)	3.25	0.03
Elekta	SKr79.85	(1%)	3.29	(0.08)

One after the other, big insurance groups fell into line and began paying for the test, with the final holdout, United Healthcare, capitulating in May. United Healthcare is the largest commercial insurer in the US, and the change, which will manifest this month, is likely to expand Cologuard's addressable market markedly. The company expects to sell nearly 150,000 tests in 2017, at \$600 a pop.

The other mid-cap risers have more modest upswings in their share prices. Swiss dental group Straumann was boosted in April when it agreed a distribution deal with Rodo Medical, in the process increasing its stake in the implant maker from 12% to 30%.

Straumann is notable for its double-digit growth rate in an implant market that is only growing at 3-4%. The company is broadening its reach into new technologies such as biomaterials and computer-aided design and manufacturing as it seeks to continue outpacing the market.

The 1%

Only two mid-cap companies saw their stock fall in value across the first half of the year. Cantel Medical had a good 2016, its shares rising 38% ([A quiet year for mid-size medtech, January 9, 2017](#)). But it came unstuck upon release of its second quarter earnings in March, where its sales of \$184.8m missed expectations.

Despite its 1% share price fall the company experienced a marginal rise in its market cap, owing to its purchase of part of the endoscopy processing business of Australian group CR Kennedy.

Swedish radiology and neurosurgery company Elekta also fell on quarterly data. Last month it reported that the number of orders it was taking in the US had fallen sharply, and its fourth-quarter earnings were Sek779m (\$89m) against analyst expectations of more than Sek1bn.

Small cap (\$250m-2.5bn) medtech companies: top risers and fallers in H1 2017				
	Jun 30 share price	H1 chg	Jun 30 market cap (\$m)	H1 chg (\$m)
Top 5 risers				
Intersect ENT	\$27.95	131%	804	458
Orasure Technologies	\$17.26	97%	997	508
Axogen	\$16.75	86%	554	258
RTI Surgical	\$5.85	80%	343	153
Mimedx Group	\$14.97	69%	1,660	690
Top 5 fallers				
Cerus	\$2.51	(42%)	263	(187)
Reva Medical	\$0.65	(22%)	267	(89)
Endologix	\$4.86	(15%)	403	(70)
Entellus Medical	\$16.56	(13%)	363	5
Cyberdyne	¥1,495.00	(10%)	1,864	(320)

Intersect ENT, leader of the small-cap risers with a jump of 131%, makes an implant a little like a bioresorbable stent, but deployed in the nose rather than an artery. The Propel family of devices are implanted as a patient undergoes surgical treatment for chronic sinusitis, and as well as physically propping the sinus open also leaches an anti-inflammatory steroid.

Intersect is bringing new products to market like clockwork. The most recent device to gain US approval was Propel Contour in February, and a new product called Sinuva designed to be implanted in the doctor's office, has a PDUFA date of January 7. Leerink analysts state that following this approval the company would have a market opportunity of around \$3.5bn. and it has that market to itself: Intersect's products are the only approved devices of their type.

As is usually the case, there are a wide range of reasons for the rises and falls in the mid- and small-cap medtechs' stocks. Chances of success can be maximised by sensible deal-making and concentrating hard on product development – but it is crucial to get payers on board, as Exact Sciences has shown.

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