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## Lack of takeovers sees medtech hiring staff again



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### **Intuitive Surgical is the winner in terms of sales per employee, despite increasing its headcount 17%.**

The dearth of large mergers in medtech in 2016 brings the organic growth in the sector to the fore. In contrast to 2015, almost all the companies in the top 15 by market cap built up their workforce organically, most notably Intuitive Surgical, which expanded by a massive 17%.

Intuitive is also the most efficient in this group in terms of sales generated per employee (see analysis below). True, the fastest-growing among the 15 largest companies by market cap is Stryker, whose 22% workforce expansion can be attributed to the eight M&A deals it closed in 2016, but this is an exception.

Standard hiring practices by the other 12 groups in the big-cap cohort allowed these to grow naturally in 2016. In this, 2016 is an outlier: mergers are almost always the means by which big changes in staff levels come about in the medtech industry.

Indeed, Medtronic, Zimmer Biomet and Becton Dickinson closed major mergers the year before, and likely trimmed some jobs in 2016 as they digested their purchases.

And the trend towards organic growth will be reversed next year. Already one company in the top 15 has closed a multibillion-dollar merger in 2017, and three more ought to close before this year is out.

## Employee numbers of the top 15 medtech companies by market cap

Company	Market cap YE 2016 (\$bn)	No of employees at year end						% change 2011-16	% change 2015-16
		2011	2012	2013	2014	2015	2016		
Stryker	44.9	21,241	22,010	25,000	26,000	27,000	33,000	55%	22%
Intuitive Surgical	24.6	1,924	2,362	2,792	2,978	3,211	3,755	95%	17%
Edwards Lifesciences	19.8	7,800	8,200	8,600	9,100	9,800	11,100	42%	13%
C. R. Bard	15.8	12,100	12,200	13,000	13,900	14,900	16,300	35%	9%
Boston Scientific	29.5	24,000	24,000	23,000	24,000	25,000	27,000	13%	8%
Coloplast	14.3	7,372	7,875	8,563	9,250	9,706	10,275	39%	6%
Zimmer Biomet	20.7	8,700	9,300	9,500	10,000	17,500	18,500	113%	6%
Essilor International	24.5	48,700	50,688	55,129	58,032	60,883	63,676	31%	5%
Hoya	16.9	32,363	35,130	36,605	34,635	34,362	35,752	10%	4%
Medtronic	116.8	45,000	46,000	49,000	92,000	88,000	91,000	102%	3%
Becton Dickinson	35.9	29,369	29,555	29,979	30,619	49,517	50,928	73%	3%
Philips	28.2	121,888	118,087	116,082	113,678	112,959	114,731	(6%)	2%
Abbott Laboratories	56.6	91,000	91,000	69,000	77,000	74,000	75,000	(18%)	1%
Baxter International	23.9	48,500	51,000	61,000	66,000	50,000	48,000	(1%)	(4%)
Danaher	54.1	59,000	63,000	66,000	71,000	81,000	62,000	5%	(23%)

Source: EvaluateMedTech.

One company is missing entirely from the top 15 table - St. Jude. It did not file a Form 10-K last year as its \$25bn takeout by Abbott, which closed in February, was pending. The group had 18,000 employees at the end of 2015; if this total were to be added to Abbott's 75,000 it would represent a 26% year-on-year growth rate for the Illinois company.

The company that saw its workforce shrink by the greatest amount also has a strategic move to thank. Danaher spun off some of its non-medtech segments into a new company, Fortive, shedding 19,000 workers in the process.

### Efficiency

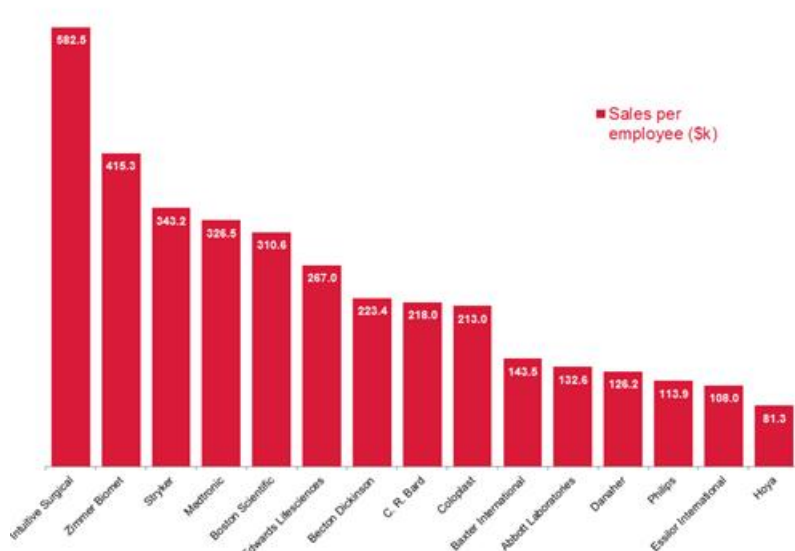
Analysing this group of big-cap companies by the sales they recorded last year also brings Intuitive out on top - hardly surprising given that it is mid-table in terms of its valuation but has the fewest workers.

The surgical robotics group made \$582,530 per employee in 2016, putting it way ahead of the rest of the pack. Its closest rival, Zimmer Biomet, made \$415,346 per staff member - still a tidy sum, but some way behind. This doubtless partly reflects the high price of Intuitive's machines - even a basic model can cost upwards of \$1m - as well as the fact that its customers are locked in to paying for a constant stream of single-use surgical accessories.

The two last-placed companies on this metric are both lens makers. Essilor, based in France, and the Japanese

group Hoya principally make lenses for eyeglasses.

Top 15 companies - sales per employee



In terms of percentage growth in staff numbers, the winner for 2016 is Viveve, which doubled its headcount to 42. This group skates the boundary between medical and aesthetic devices, offering a therapy for “vaginal laxity”.

Aesthetics is without doubt a fast-growing, money-spinning sector, and over the past five years Viveve has obtained \$23m in venture funding from investors including Wexford Capital and 5AM Ventures.

Top 10 headcount increases of the last year

By percentage of staff added			By number of staff added		
Name	% added	2016 headcount	Name	Number added	2016 headcount
Viveve Medical	100%	42	Stryker	6,000	33,000
Accelerate Diagnostics	71%	193	Dentsply Sirona	4,300	15,700
CareDx	69%	161	Sonova	3,195	14,089
Omniceil	68%	2,444	Medtronic	3,000	91,000
Nevro	68%	518	Essilor International	2,793	63,676
Venaxis	60%	8	B. Braun Melsungen	2,318	58,037
Dexcom	57%	1,900	Boston Scientific	2,000	27,000
Oxford Immunotec	55%	432	Philips	1,772	114,731
Novacyt	45%	97	Align Technology	1,685	6,060
Align Technology	39%	6,060	William Demant*	1,536	12,339

\*Numbers are averages for the year.

As for those whose workforce shrank over the past year, the biggest percentage reduction was in Alphatec’s staff. This was the result of a divestment: the spinal implant company sold its international operations and distribution channels to a musculoskeletal specialist, Globus Medical, for \$80m in cash.

Then there is the long, slow atrophy of GI Dynamics following the abandonment of its only product two years ago (*GI Dynamics has nothing up its sleeve, July 31, 2015*). In 2015, the company dropped from 69 employees to 36; in 2016 the percentage fall was even more precipitous, leaving the company with a staff of just 15.

## Top 10 headcount reductions of last year

By percentage of staff cut			By number of staff cut		
Name	% cut	2016 headcount	Name	Number cut	2016 headcount
Alphatec Holdings	(62%)	162	Danaher	(19,000)	62,000
GI Dynamics	(58%)	15	Steris	(2,000)	12,000
Lombard Medical Technologies	(40%)	113	Baxter International	(2,000)	48,000
Vermillion	(39%)	33	Gerresheimer	(780)	9,904
Tearlab	(36%)	75	Drägerwerk	(700)	13,236
Cancer Genetics	(36%)	142	Masimo	(650)	3,050
LED Medical Diagnostics	(30%)	28	ConvaTec	(556)	8,500
Nexstim	(28%)	23	DJO Global	(280)	4,980
CHF Solutions	(24%)	29	Alphatec Holdings	(268)	162
Danaher	(23%)	62,000	Nxstage Medical	(200)	3,400

The changes in headcount – both increases and decreases – seen over the past year are relatively modest; in 2015 small-cap companies swung as much as 612%, and even among the big-cap group the biggest increase was 62%, far larger than this year's 22%. This is partly attributable to the much quieter merger scene last year.

Next year ought to see greater changes. Several big deals will make themselves felt, including Abbott-St. Jude, and Becton Dickinson's purchase of Bard for \$24bn. Philips is divesting its last lighting units but buying Spectranetics, perhaps meaning that its staff numbers will not change greatly though its focus will be entirely different.

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