Siemens goes Deutsche on medtech business

[Elizabeth Cairns](#)

The first half of next year is likely to see the biggest healthcare IPO in history – and it won't be in the US. The long-gestating spinout of Siemens's Healthineers division is expected to see the group float up to 25% of the shares in the €40bn ($47bn) unit on the Frankfurt exchange.

Siemens is the leader in the diagnostic imaging sector, and its medical unit is its largest. It is currently forecast to be the world's fourth-largest medtech company, by 2022 sales according to *EvaluateMedTech*, but as a nimbler, more focused group it might have more room to buy in innovation and grow even faster.

Healthineers has been Siemens's most profitable unit in recent years. In fiscal 2017 the unit accounted for 17% of the group's revenue – $13.8bn – and 30% of its earnings. An IPO could help crystallise its value, analysts from Deutsche Bank say, by attracting higher multiples than the Siemens conglomerate.

They already estimate Healthineers' 2018 enterprise value to Ebita ratio to be 13.5x, versus 10.4x for Siemens as a whole. A €40bn valuation at IPO would allow Siemens to realised an impressive 16x multiple, and a 25% stake sale would see Siemens pocket $12bn.

Slow

The diagnostic imaging sector in which Siemens plays is the third largest sector in medtech, but one of the slowest, with sales forecast to grow at just 3.4% annually out to 2022. The market is saturated – every hospital is already home to several MRI and CT systems, and ever-present spending pressure means that administrators increasingly put off replacing them, instead opting to eke all the use they can out of the machines they have.

If technologies like liquid biopsies, which allow the progress of cancer treatment to be tracked using tumour DNA in the blood, take off the sector will be hit even harder as the need to examine masses using imaging is diminished.

Siemens itself is behind even within the imaging sector, with a forecast annual growth rate for its healthcare business of just 2.1% to 2022. Its American mirror-image, the industrial conglomerate General Electric, will see its healthcare unit grow by 3.3% annually during the same period, *EvaluateMedTech* data show.

This is not to say Siemens cannot innovate. In August it gained US approval for its 7 Tesla MRI scanner, the Magnetom Terra – the first time such a powerful machine has been approved for clinical, rather than simply research, use. The system's stronger magnetic field allows it to produce images of greater clarity compared with 1.5 or 3 Tesla machines.
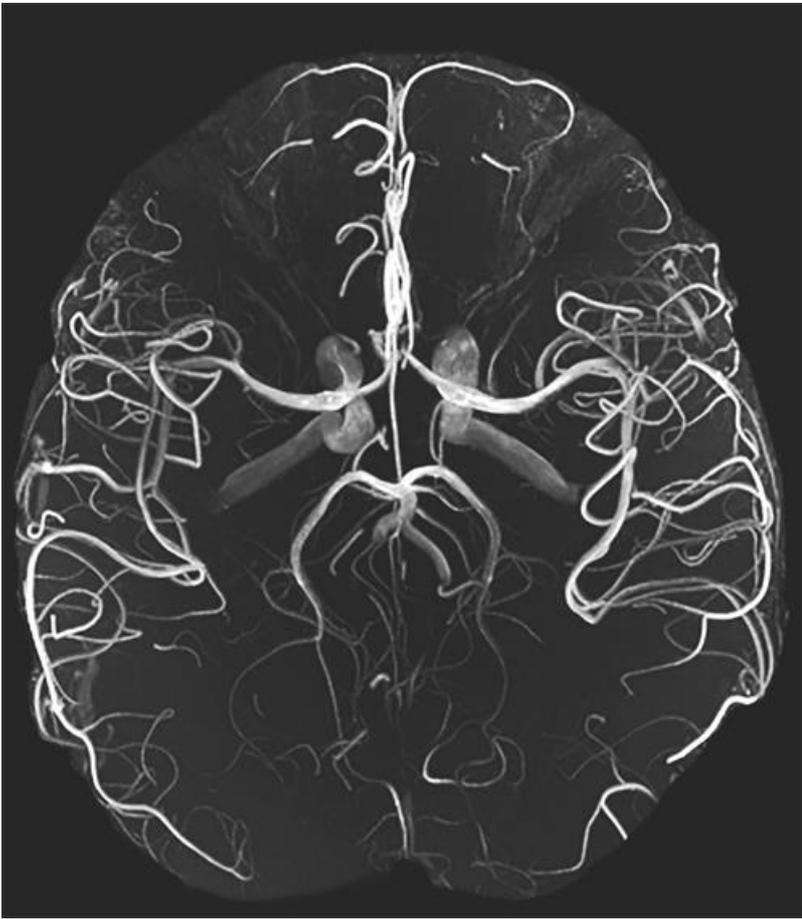
An image produced by Siemens's Magnetom Terra scanner

TBD

The company is also investing in non-imaging-based technologies to guarantee its standalone future. Late September saw its Atellica immunoassay platform gain the European CE mark, and the company is pushing forward with US approval too. The Atellica system is quicker than much of the competition, Siemens says, and has the highest productivity per square metre in the industry.

Spinning off Healthineers could revolutionise the unit. Biz dev activity will be ramped up: on Siemens's third-quarter conference call management stated that "we are going public because it will give us the resources that we need for growth and acquisitions". It would not be surprising if the newly independent group makes a bold move or two, probably outside its core MRI/CT area – a molecular diagnostics developer, for instance.

The exact timing of the float is still undecided, and will depend on market conditions. Siemens is believed to have opted for Frankfurt over New York because it has significant healthcare sales in Asia, and wishes to be seen as a global, rather than US-focused, organisation. The London exchange does not seem to have been seriously entertained as a possibility; as Siemens stated, Frankfurt's importance will increase owing to Brexit.

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