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2017 saw the stars Align for big-cap medtech

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Toothy grins all round at Align, but it is unclear how much longer it can keep up its scorching rate of sales growth.

At the half-year point it was already clear that 2017 would be a different kettle of fish from the preceding period. But the extent of the year-on-year difference in investor sentiment when it comes to large-cap medical device makers is genuinely surprising.

Not a single company with a market cap in excess of $10bn saw its share price fall across 2017 (see tables below). And one group has put in a performance better than any other in this cohort since *EP Vantage* began analysing the share performance of medtech groups: stock in the cosmetic dentistry company Align Technologies climbed an unprecedented 131%.

No big cap medtech has seen an annual share price increase this big within the last five years. Only one has even come close: Boston Scientific shares more than doubled in 2013, but even this falls behind Align's astonishing tear.

Certainly it is true that the general mood last year was markedly more positive than during 2016. The Thomson Reuters Europe healthcare index reverted from a 12% fall in 2016 to a healthy growth rate of 16%, and US indices jumped from sluggish growth in the 5-7% range to the low 30s.

Stock index	% chg in 2017
Thomson Reuters Europe healthcare (EU)	16%
Dow Jones US medical equipment index	30%
S&P composite 1500 healthcare equipment & supplies	31%

Indeed, big-cap medtech has decisively outpaced big-cap biotech. This is surely partly due to confusing and often contradictory messages from the White House on drug price controls; the pricing of medical devices does not grab headlines and therefore largely escapes governmental attention.

Showing its teeth

Invisalign, Align's core technology, is the leading brand of clear tooth aligners by a long way. There have only ever been two serious competitors: Orthoclear, which Align sued into nonexistence in 2006, and Clearcorrect, bought by Straumann last year.

Align has been investing in a wide variety of technological and commercial innovations, from 3D laser scanning of customers' mouths using its iTero Element system and 3D printing of aligners to fit, to actual bricks-and-mortar stores – the first, in San Francisco, opened in November – that allow potential customers to come in and discuss their options for treatment and financing.

And the customers have come in droves. For the nine months ended September 2017 sales increased by 34% year on year, and profit 56%. The devices are not covered by Medicare or Medicaid, though Align says many commercial plans will pick up at least some of the cost. A US patient paying out of pocket can expect a bill of $3,000 to $8,000.

Even the sellside appears somewhat befuddled by Align's remarkable performance. Noting that the growth rate in teen cases – which represent about 75% of the overall orthodontics market – roared from 20% in 2016 to 38% in the first three quarters of 2017, Deutsche Bank analysts wrote that "the reasons for the recent acceleration remain somewhat unclear".

The obvious question concerns how long Align can maintain this kind of pace given that the wider orthodontics market is growing at around 4%.

Large cap ($10bn+) medtech companies: top risers and fallers in 2017			
	Share price	**Market capitalisation ($bn)**	
	12-mth chg	**YE 2017**	**12-mth chg**
Top 5 risers			
Align Technology	131%	17.8	10.2
Straumann	73%	11.1	4.7
Intuitive Surgical	73%	40.9	16.3
Biomérieux	58%	10.4	4.23
Teleflex	54%	11.2	4.1
3 worst performers			
Olympus	7%	13.1	(0.2)*
Essilor International	7%	29.6	3.8
Philips	9%	34.9	5.2
**Market cap rose 7% on constant currency basis. Source: EvaluateMedtech.*			

Align has had a particularly scorching year, but the other top-five big-cap risers are in robust health too, all showing share price increases of more than 50%.

The company in the number-two position, Straumann, is coming for Align – though it has an awful lot of ground to cover. In 2017 it closed the acquisition of Clearcorrect, the only other active developer of clear aligners, for $150m.

Clearcorrect is much smaller than Align, but the latter still sees it as an incipient threat, and the two groups have been engaged in fierce litigation since long before the Straumann acquisition.

Though promising, clear aligners make up a small proportion of Straumann's business, which is principally implants. Straumann will also have benefited to some degree from a couple of its largest competitors concentrating more on M&A activity – Danaher bought Nobel Biocare, and Dentsply bought Sirona – than short-term sales growth (*Another dental megamerger leaves Straumann on the shelf, September 16, 2015*).

Teleflex, the slowest of the top five with a growth rate that would have made it the leader in two of the last five years, is unlike any of the others in this group. Where the top four companies specialise in a single area Teleflex is diverse in the extreme. It also relies to a large extent on acquisitions to fuel its growth (*Serial acquirer Teleflex seeks deals both big and small, October 19, 2017*).

This strategy has resulted in strong growth. The company's third-quarter revenues rose 17% from the same period in 2016, to $535m, and profits hit $77m, up 16% on the prior year. But, as always with a serial acquirer, there is always the question of how long this strategy can continue to bear fruit.

With massive risers and no fallers, it is clear that the good times are back for big-cap medtech, and huge gains can be made by companies willing to invest in innovation and pioneer new commercial approaches. Investors might be seeking safer, steadier growth than that seen in biotech, which last year often fluctuated on the basis of a single Twitter account. But, if this analysis shows anything, it is that being relatively safe and steady does not preclude vast increases.

The top large cap ($10bn+) medtech risers of the past five years				
		Share price (local currency)	**Market capitalisation ($bn)**	
Year	**Company**	**12-mth chg**	**Year end**	**12-mth chg**
2013	Boston Scientific	110%	16.0	8.3
2014	Edwards Lifesciences*	94%	13.6	6.4
2015	Hologic	51%	11.3	3.95
2016	St. Jude Medical**	30%	22.91	5.45
2017	Align Technology	131%	17.8	10.2
**Edwards has since done a 2:1 stock split; **St Jude was bought by Abbott Laboratories in 2017. Source: EvaluateMedtech.*				

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