

September 12, 2018

## Stryker gets its purse out again, but integration is key



[Elizabeth Cairns](#)



**Having won the most acquisitive crown in 2016, Stryker seems to be seeking the prize this year too, buying Invuity and spinal company K2M.**

Stryker's snapping up of Invuity for \$190m might not be in quite the same league as its \$1.4bn acquisition of K2M at the end of last month, but the two companies are both intended to bolster the ortho group's spinal franchise as it seeks growth.

And growth it will get. Once the K2M and Invuity deals close - expected by the end of this year - Stryker will be able to leapfrog Zimmer Biomet to become the number-two orthopaedics company in 2024, with the fastest annual growth rate among the top five.

Invuity has a technology that is so simple one wonders why no one has thought of it before: [light-up surgical instruments](#). The single-use products include retractors, cutters and coagulators and suction devices, and are designed to be used in a range of spinal and other orthopaedic procedures as well as breast and thyroid surgery.

According to Stifel analysts, Invuity's sales are already growing at around 20% and the group has a gross margin of around 70%; Stryker's is around 66%. At \$7.40 per share the deal comes in at an 29% premium to Invuity's close on Monday.

### **Second place**

If the Invuity deal is a cheap and promising tuck-in, the purchase of K2M will be more strategically meaningful for Stryker. K2M is currently in 14th place in the table of largest ortho companies with forecast 2018 revenues of \$285m, but these will hit \$460m in 2024 according to EvaluateMedTech.

## Top 5 orthopaedics companies

Company	WW annual ortho sales (\$bn)		CAGR
	2018e	2024e	
Johnson & Johnson	9.0	10.3	+2.2%
<i>Stryker after K2M and Invuity deals close</i>	6.7	9.1	+5.4%
Zimmer Biomet	7.5	8.9	+2.7%
<i>Stryker currently</i>	6.4	8.5	+4.9%
Medtronic	3.1	3.8	+3.3%
Arthrex	2.3	2.8	+4.0%

Source: EvaluateMedTech.

Once Stryker has integrated K2M and Invuity, its 2018 orthopaedics sales will hit \$6.7bn. Its swift predicted growth, however, means that by 2024 it will have taken the second spot with ortho revenues of over \$9bn.

This does not, of course, take account of any divestments Stryker might have to make, not so much to avoid antitrust concerns as to deal with the small amount of overlap in the two groups' technologies.

As important as the scale growth is the effect the K2M deal will have on Stryker's poorly-performing spinal division. This is the slowest growing segment within Stryker's businesses thanks to its somewhat ageing device portfolio.

### Sub rosa

Stryker's internal efforts to accelerate growth of its spinal products do not seem to have been successful. The group had been hoping to boost its spine franchise with the development of a spine-focused version of its robotic surgery platform Mako, currently only used for knee surgeries. On the second-quarter conference call in July, though, management refused to give a timeline for this. By contrast, Zimmer's robotic system, Rosa, is expected to be launched for use in spinal procedures late this year.

K2M's products open a new sub-market for Stryker: spinal deformities. This category is not elective, meaning it sees minimal payer pushback and is insulated from spine market dynamics. K2M has a strong complex spine portfolio, which includes deformity, trauma and tumour products, a \$1.7bn global market according to Wells Fargo analysts, of which \$1bn is in the US.

These analysts state that spine-focused deals, such as Zimmer's 2016 acquisition of LDR and Johnson & Johnson's \$20bn takeout of Synthes four years earlier, have done badly thanks to salesforce integration. Mindful of this, Stryker intends to keep K2M's sales infrastructure intact to avoid disruption. It is also bringing in K2M's chief executive, Eric Major, as president of Stryker's spine division.

The K2M and Invuity deals are Stryker's fifth and sixth deals this year. Given the obvious challenges of integrating K2M, though, it seems unlikely that Stryker's 12-month record, the eight deals it closed in 2016, will be broken.

## Stryker's 2018 acquisitions to date

Date	Target	Value (\$m)	Target focus
September 11	Invuity	190	Orthopaedics
August 29	K2M	1,400	Orthopaedics
June 25	SafeAir	Undisclosed	General and plastic surgery
May 1	Hygia Health Services	Undisclosed	Cardiology; patient monitoring
February 28	Entellus Medical	662	Anaesthesia & respiratory; ear, nose & throat; endoscopy; general hospital & healthcare supply
February 14	Vexim	205	Orthopaedics

Source: EvaluateMedTech.