Evaluate Vantage

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Big cap medtech comes roaring back

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Exact Sciences finds that where there's muck there's brass, but specialisation does not work as well for Abiomed.

Welcome to the big time, Exact Sciences. The cancer testing company has made the leap from mid cap to big cap, its market value having climbed to more than $15bn in the first six months of 2019 on the back of an 87% share price increase.

This makes it the biggest riser in a cohort that has seen enormous success so far this year – only one big-cap medtech, the heart pump maker Abiomed, has seen its stock fall in value. And comparing the gains in this sector to those in big cap biotech and pharma belie the medtech industry's reputation for stolidity.

Overall big cap medtech is a pretty good place to be. The share price indices that give a broad idea of the sector's health have escaped the doldrums in which they were trapped throughout 2018, and as usual US-listed stocks are outpacing those in Europe.

Stock index	% change in H1 2019
Thomson Reuters Europe Healthcare (EU)	13%
Dow Jones U.S. Medical Equipment Index	20%
S&P Composite 1500 HealthCare Equipment & Supplies	18%

And a quiet merger scene – many of the big M&A deals so far this year have involved private equity buying rather than big medtechs – means share price movements can be attributed to other factors.

Too big to fail?

Exact Sciences has gone from strength to strength in recent years, with sales of Cologuard, its faecal test for colorectal cancer, soaring from $1.8m in 2014 to $454m last year. But it has yet to turn a profit, and its net loss has widened.

More recent data are not encouraging either, with the first quarter of 2019 bringing a net loss of $83m, more than twice as great as in the same period in 2018.

Investors are nonchalant, driving the group's share price ever skywards, and short interest in the stock has rarely breached 10% over the past year, Nasdaq figures show.

If its backers are hoping that Exact might be acquired, as single-product companies often are, the moment might have passed. Few buyers exist that could snap up a company with a $15bn valuation, and excitement is building around liquid biopsies which might, sooner or later, come to edge Cologuard out. The company saw a rare blip when the blood testing group Guardant Health's statement that it was going to trial its Lunar assay as a screen for colorectal cancer caused a 10% drop in Exact's shares (*Exact falls on Guardant's liquid biopsy plans, May 13, 2019*).

Large cap ($10bn+) medtech companies: top risers and worst performers in H1 2019			
	Share price	**Market capitalisation ($bn)**	
	6-mth change	**June 30, 2019**	**6-mth change**
Top 5 risers			
Exact Sciences ($)	87%	15.2	7.5
Dentsply Sirona ($)	57%	13.7	5.4
Straumann (SFr)	39%	13.6	3.7
Steris ($)	39%	12.6	3.6
Danaher ($)	39%	102.3	30.0
Top 3 worst performers			
Abiomed ($)	(20%)	11.8	(2.8)
Siemens Healthineers (€)	1%	41.6	(0.4)
Terumo (¥)	3%	21.8	0.9

The dental companies Dentsply Sirona and Straumann have had a good few months, their market caps now almost at level pegging. Dentsply's annual results, released in March, beat expectations and this was followed by a first-quarter beat-and-raise in May.

Straumann benefited from the settlement of long-running litigation between its clear tooth aligner business Clearcorrect and the market leader in this space, Align Technologies. Given that Align essentially annihilated the only other transparent aligner developer, Orthoclear, through litigation – it filed federal lawsuits against the company alleging false advertising, trade libel, defamation, unfair competition and trademark infringement – Straumann, in settling its dispute for a mere SFr8m, had a lucky escape.

Heartache

Abiomed, the maker of the Impella range of temporary heart pumps, suffered a significant selloff in March after a previously halted US trial of Abbott's potential competitor, the Heartmate PHP, was restarted. This precipitous decline seems a little overdone considering that Abbott's device is not expected to go on sale in the US before 2021.

The decline might also reflect shareholders' disappointment that a takeover has not materialised. In many ways Abiomed makes a likely candidate for an acquisition, being specialised, fast-growing and profitable. It is also largely free of competition, or at least it will be for the next two years, and its stock went on a tear across 2018, ending the year up 73% (*The fourth quarter sell-off hurt big medtech less than big pharma, January 11, 2019*).

Perhaps the recent contraction in its value might lure a buyer. In the meantime medtech investors might want to reflect on the similarities between Abiomed and Exact Sciences, and wonder why it was the profitable company that has suffered.