Evaluate Vantage

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Big cap medtechs see out the decade in style

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The good times continue to roll for big cap device makers, with two companies doubling their market value, and not a single share price fall.

At the half-year point the medical device sector was looking pretty good. A look at the performance of the largest medtechs across all of 2019 shows that things have improved even further.

No group in this cohort – those with a market cap of $10bn or more – has endured a share price fall over the year. And two companies, the insulin pump maker Insulet and endoscopy specialist Olympus, more than doubled in size, thanks to burgeoning demand and the setting out of an aggressive, medtech-focused strategy respectively.

These businesses have been aided, of course, by the general market atmosphere. The indices covering US-listed medtech companies are up around 30% and, highly unusually, EU-listed healthcare groups seem to be equalling this performance. And comparing these indices with those tracking pharma companies and biotechs indicates that sentiment is more positive in medtech (*The big cap empire strikes back, January 6, 2020*).

Stock index	% change in 2019
Thomson Reuters Europe Healthcare (EU)	26%
Dow Jones U.S. Medical Equipment Index	31%
S&P Composite 1500 HealthCare Equipment & Supplies	27%

The big-cap medtech cohort, which includes only companies that obtain more than 40% of their revenues from the sale of diagnostic or therapeutic medical technology, is led by Insulet with a scorching 116% uptick in its share price.

The insulin pump maker has had a highly successful year, jumping 20% in August on a second-quarter beat-and-raise. It is aggressively pursuing innovation, launching the Omnipod Dash last year under a pay-as-you-go model that the company claims is the only one under which patients can get an insulin pump without an up-front charge or four-year lock-in period.

Growth could continue next year if the company's next big launch is as successful. Its Omnipod Horizon closed loop platform, which includes Dexcom's G6 blood glucose sensor, is expected to debut in the second half of

2020.

Large cap ($10bn+) medtech companies: top risers and fallers in 2019			
	Share price 12-mth change	**Market cap at Dec 31 ($bn)**	**Market cap 12-mth change ($bn)**
Top 5 risers			
Insulet ($)	116%	10.6	5.9
Olympus (¥)*	100%	21.4	5.9
Dexcom ($)	83%	20.0	9.4
Straumann (SFr)	54%	15.2	5.3
Edwards Lifesciences ($)	52%	48.7	16.6
Top 3 worst performers			
Becton Dickinson ($)	12%	73.6	8.6
Varian Medical Systems ($)	15%	12.9	1.7
Siemens Healthineers (€)	17%	42.4	0.5
**Olympus carried out a 4:1 stock split in April. Source: EvaluateMedtech.*			

Dexcom itself appears in third place among the risers, having leapt 27% on its third-quarter results and increased full-year revenue and profitability guidance in November. This group could also benefit from the Omnipod Horizon launch.

Into the sunshine

Between these diabetes specialists is Olympus, whose stock lifted 15% in early November when the company laid out its plans to lift itself out of the doldrums.

The group lost 22% of its value across 2018, having been hit badly by the Tokyo exchange's nightmarish fourth quarter. The company also suffered from the findings five years ago that poorly sterilised duodenoscopes had led to infections and deaths (*Event – Duodenoscope panel could cut Olympus's sales, May 8, 2015*). It is only now emerging from under this cloud.

Olympus will now focus on its medical technologies, stating that this business unit is a key contributor to revenue and profit and has the greatest market growth potential. It also aims to bring about innovation in reusable endoscopes as well as to pioneer "the nascent disposable endoscopy segment". It is aiming for annual sales growth of 6% over the next three years in its endoscopy business, helped by increasing demand in emerging markets such as China.

A sign of just how good 2019 was for the larger-scale device makers is that the worst-performing company still saw a share price rise of 12%. Becton Dickinson has had what in other circumstances would be a perfectly respectable year – it looks disappointing only because of the illustrious company it keeps.

The last time this analysis showed across-the-board stock rises was two years ago (*2017 saw the stars Align for big-cap medtech, January 9, 2018*). But the lowest rise that year was 7%, suggesting that 2019 was better still.

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