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Poor fourth quarter mars strong year for medtech floats

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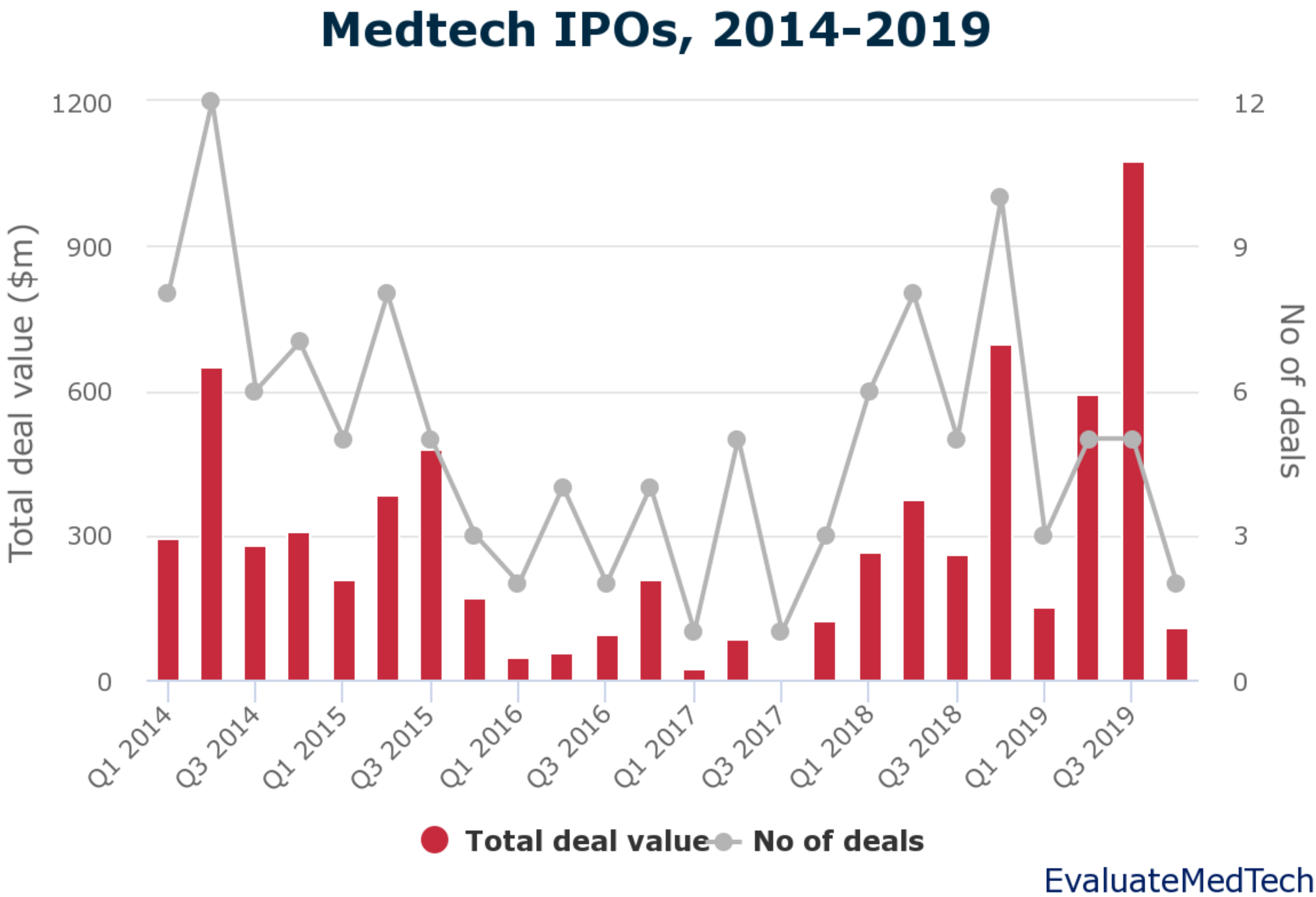
The device sector enjoyed a mid-year IPO bonanza, but after getting away the class of 2019 had a torrid time.

Note: This article corrects and replaces an earlier analysis, published on January 15, which omitted two IPOs.

If last year was quiet in terms of the number of device makers that went public – at least compared with 2018 – the amount raised by the 15 IPOs that did go ahead is impressive, at $2.5bn.

But the performance of these groups on the markets in the months following their debuts has been mixed. Seven of the 13 listing companies have seen their valuations wither, and the dental group Smiledirectclub, which conducted 2019’s largest flotation, has been the worst performer of all.

The middle of 2019 was astonishingly strong when it comes to the sheer amount of money raised on the public markets by medical device companies. The graph below excludes the multibillion-dollar IPOs of Convatec and Siemens Healthineers in 2016 and 2018 respectively, as well as Smiledirectclub’s $1.3bn offering in September, so as to give a fairer picture of underlying trends.



Broadly those companies that went out on US exchanges did better than those in the rest of the world, but this trend is by no means absolute.

The orthopaedic implant maker Medacta listed in its home market of Switzerland, and the year's three smallest deals, which are not big enough for inclusion in the table below, occurred in Belgium, South Korea and Australia. Only one of these companies ended the year in the black: the wound healing specialist Next Science, which raised $25m on ASX in April.

Conversely, only three of the 10 US-based offerings lost money. But one of them lost a lot.

At IPO Smiledirectclub was valued at $8.9bn. With its shares having fallen 62% to the end of last year, the online dentist shed $5.5bn of its value, becoming the worst-performing new stock of 2019. This is a dire fate indeed, and a reminder that while generally speaking the bigger medtech listings tend to do better than the smaller ones, nothing is guaranteed.

The company had set itself up as a competitor to Align Technology, maker of the Invisalign brand of transparent tooth straighteners. Smiledirectclub aims to undercut the market leader on price, but has so far been unable to turn a profit, unlike Align (*The contrasting fortunes of Envista and Smiledirectclub, September 20, 2019*). It had a wretched first day and continued to perform poorly throughout the year, but has rallied slightly in 2020.

Top 10 medtech IPOs of 2019

Date	Company	Focus	Amount raised ($m)	Discount/ premium	Share price chg to year end
Sep 12	Smiledirectclub	Dental	1,300	12%	(62%)
Sep 18	Envista*	Dental	589	(2%)	35%
Apr 4	Medacta Group**	Neurology; orthopaedics	588	8%	(30%)
Jul 26	Livongo	Diabetic care; patient monitoring	355	30%	(11%)
Jun 27	Adaptive Biotechnologies	In vitro diagnostics	345	25%	50%
Apr 4	Silk Road Medical	Cardiology; neurology	120	25%	25%
Mar 7	Shockwave Medical	Cardiology	111	13%	158%
May 2	Transmedics	Surgery	105	0%	19%
Jul 26	Castle Biosciences	In vitro diagnostics	74	7%	115%
Sep 20	Exagen	In vitro diagnostics	58	(7%)	81%

**IPO on the NYSE. **IPO on Six Swiss exchange. All others are Nasdaq. Source: EvaluateMedTech.*

Another striking aspect of this leaderboard is the size of the deals as compared with those in the biopharma sphere. The top 10 drugmaker IPOs all raised more than $100m, unlike those in medtech (*Last-ditch rally saves 2019 float tally, January 15, 2020*). But on average, the medtech deals were bigger than biopharma's, and across all of 2019 no biotech raised as much as Smiledirectclub, Envista, Medacta or Livongo.

Livongo in particular posed an appealing prospect as a company at the nexus of healthcare and pure tech. Payers and investors are aware of the potential of software to aid treatment decisions, whether made by doctors or patients themselves. Livongo's innovative business model might have been offputting, but fortunately its fast-growing revenues appear to have forestalled investor qualms (*Keeping corporations healthy is good business for Livongo, December 2, 2019*).

Medacta is active in a far more genericised market, but it is profitable – unlike Livongo.

Diagnostics developers were also well represented. Two of the three are predominantly focused on oncology: Adaptive Biotechnologies and Castle Biosciences. Exagen is working on tests for autoimmune conditions.

Overall, the 2019 data show an obvious, and potentially worrying, pattern. Both the top 10 table and the quarterly analysis show a definite shrinking of investor appetite going into the third quarter. The fourth quarter's two offerings were small – less than $60m – but still had to be priced below their initially proposed ranges to get away, and both fell again once trading commenced. Almost all the groups that listed in spring and summer were able to charge a premium.

If the window of opportunity is swinging shut, 2020 could be a difficult year for medtechs in search of capital.