A listless quarter for Medtronic

Medtronic has lined up a whole pipeline of new devices – and it will need them.

Investors in the world’s largest medtech must hope that Medtronic’s disappointing third-quarter results represent a brief detainment in the doldrums before the trade winds pick up.

The group has a whole suite of product launches lined up that ought to boost its sales later this year and early next, but factors including the emergence of the new coronavirus, a delay to one of its major new products and increasing competition elsewhere have becalmed the company for now. Better-than-expected earnings could not appease shareholders spooked by revenues coming in beneath projections, and its shares closed down 4%.

The company’s diabetes unit grew 0.8%, slightly ahead of expectations. But the US business declined in the low double digits, partly because Medtronic is awaiting the debut of new products.

Speaking on the earnings call, outgoing chief executive Omar Ishrak said US filing for the Minimed 780G, the next version of Medtronic’s artificial pancreas, would now occur in March. This would push approval out beyond the end of fiscal 2020 – mid-June – to the end of calendar 2020 at the earliest.

Pivotal data on the system is slated for the American Diabetes Association’s annual meeting in June, Stifel analysts write; it will be crucial for the device to meet the criteria for approval as a fully interoperable continuous glucose monitor (iCGM) to put it on an equal footing to the likes of Dexcom’s G6.

If approved, the 780G would be Medtronic’s fourth system classified by the FDA as an artificial pancreas, after the 530G, 630G and 670G. The only other device approved as such on the US market is Tandem Diabetes Care’s t:slim X2.

Other big launches in the offing include that of the spinal cord stimulation technology for pain, obtained via the acquisition of Stimgenics in January, and the Cobalt and Crome portfolio of high-powered implantable cardioverter-defibrillators and cardiac resynchronization therapy-defibrillators. In both cases Medtronic said customers were holding off buying new devices until these new products launch, contributing to the quarter’s softness.

Valves under pressure

One of the main hits to Medtronic’s top line came from its US transcatheter aortic valve business. Sales grew 13%, which was below the market growth rate. Management suggested that it was having difficulty hiring and
training sales people quickly enough to keep up with the rapidly expanding market.

This is quite a contrast with the performance of Edwards Lifesciences, leader of the aortic space. Reporting its fourth-quarter results in January, it said its global aortic valve sales increased by around 30% on an underlying basis, “with impressive strength in the US”.

Medtronic’s management at least believes that the coronavirus, which has imperilled operations in China, ought to be a transient threat. Medtronic’s China-based businesses, which make up roughly 7% of global sales, have suffered from postponed medical procedures and a shortage of medical personnel.

The company has an investor day on June 2, by which time it will be led by Geoffrey Martha, currently president of the restorative therapies group. By then it will hope to have put all these woes behind it.