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Joint makers report pandemic pain

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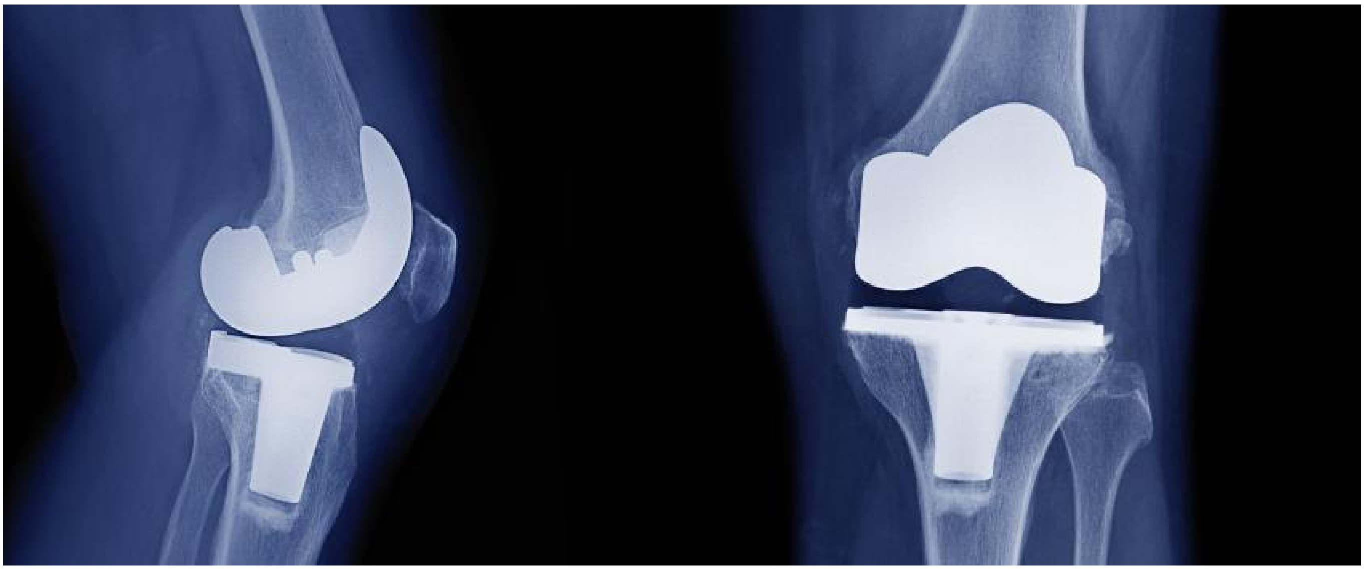

Sales of implants are set to fall sharply as non-urgent procedures are deferred.

For some medtechs the Covid-19 crisis has spurred demand for services: those that make the tests for coronavirus infections; makers of ventilators necessary to aid patients' breathing; or telemedicine developers whose technology has taken off at a time when doctors can only see in person the most seriously ill.

Many more device companies, however, are being hit hard. As hospitals fill with the desperately sick, other patients requiring elective surgery are postponing their operations. Orthopaedics groups in particular are suffering. Companies including Stryker and Smith & Nephew withdrew their 2020 revenue guidance this week, conceding that use of their products would fall throughout the year.

In an SEC filing on Tuesday Stryker said it was withdrawing its first-quarter and full-year 2020 sales growth and earnings per share guidance, originally posted at the end of January. The group blamed the "unprecedented" measures that have been enforced by various governments to slow the spread of the virus, including the deferral of elective procedures and restrictions on social contact.

Joint deconstruction

Stryker will likely see the greatest effect on its hip and knee implants and endoscopy products, since the procedures these are used for are relatively easy to defer by a few months.

These products made up around a third of its total sales last year. Its trauma, extremities and spine businesses will be less severely affected since these are more often used in emergency surgeries, and the same goes for its neurovascular devices that are used to treat strokes.

The pandemic might also hit another aspect of the group's business: its $5.4bn takeover of Wright Medical, currently slated to close in the second half (*A Covid-19 threat to business acquisitions, 3 April 2020*). The SEC filing does not mention the acquisition, so perhaps Stryker thinks the deal will conclude on schedule. Most of Wright's sales come from devices to treat extremities – upper extremities such as shoulders in particular – so it could be affected slightly less than Stryker itself.

The top five joint reconstruction companies			
	Annual sales ($bn)		
Company	**2019e**	**2024e**	**CAGR**
Zimmer Biomet	5.0	5.9	+3%
Johnson & Johnson	3.3	3.8	+3%
Stryker	2.8	3.3	+3%
Smith & Nephew	1.7	2.1	+3%
Wright Medical Group	0.8	1.3	+9%
Source: EvaluateMedTech.			

In fairness to Smith & Nephew, when it announced its 2020 outlook in February it did so with the proviso that the Covid-19 “situation normalises early in Q2”. This now being impossible, the group says that in China elective procedures have restarted,but remain considerably below pre-outbreak levels. In Europe and the US, though, all but the most urgent surgical procedures have been halted.

The UK group now expects underlying revenue growth for the first quarter to be around 8% down year on year, and its second-quarter sales and first-half trading margin will be “substantially down”.

Exposure

The makeup of S&N’s business makes it far more exposed than Stryker; almost all its products are used predominantly in non-urgent procedures. Joint reconstruction devices made up about a third of S&N’s sales last year and endoscopy another third; its other main business, wound care, accounted for a quarter of revenues. Some of its wound care products will be used for injuries requiring immediate treatment but many are used to treat wounds resulting from joint arthroplasties – which are not now happening.

A contract with the UK government to build a new kind of ventilator specifically designed to allow large-scale production is good news, but will fall far short of making up for its orthopaedics losses. The OxVent device is under review by the UK's MHRA; if approved, it will be made at S&N’s advanced wound management facility in Hull, UK.

Other orthopaedics companies rowing back their guidance include Conformis, which has furloughed around a third of its employees, stating that demand for arthroplasty has dropped significantly. Another tiny firm, Orthopediatrics, has withdrawn its guidance too. Intriguingly Othopediatrics has decided that this is a good time for M&A: yesterday it bought Apifix, which makes a device to treat young people with scoliosis, for $39m in cash and stock.

The effects of the pandemic on device sales will be felt in all sectors. Boston Scientific, mainly a cardiology company, and the patient monitoring specialist Masimo, have already abandoned prior guidance. Many more medtechs will have to do the same in the days to come.

Medtechs that have withdrawn guidance				
Date guidance withdrawn	**Company**	**Sector**	**Former guidance for 2020 revenues**	**Former guidance for organic growth**
April 1	Masimo	Patient monitoring	$1.035bn	11 - 11.4%
March 31	Stryker	Orthopaedics; endoscopy; surgery; neurology	-	6.5 - 7.5%
March 30	Smith & Nephew	Orthopaedics	-	3.5 - 4.5%
March 30	Boston Scientific	Cardiology; endoscopy; neurology; respiratory; urology	-	6.5 - 8.5%
March 30	Orthopediatrics	Orthopaedics	-	22 - 24%
March 23	Conformis	Orthopaedics	-	3 - 6%
March 19	Exact Sciences	In vitro diagnostics	$1.61 - 1.65bn	-
Source: company communications, SEC.				

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