Evaluate Vantage

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Covid-19 takes a toll on medtech’s first quarter

Elizabeth Cairns

Medtronic has had a poor quarter owing to the pandemic – but Zimmer’s has been even worse.

The Covid-19 crisis has had deleterious effects on many of the largest medtechs, and the biggest of all is no exception. Reporting its 2020 results today, Medtronic said sales in its fiscal fourth quarter ended April had fallen 26% year-on-year – and warned that worse was to come.

Still, the group has not done as badly as some. Of the major medtechs, the worst affected by the pandemic has to be Zimmer Biomet, the only one to have reported a net loss for its first quarter as a result of the pandemic.

More than 80% of Zimmer’s worldwide revenue comes from elective procedures, and with patients putting these off and doctors being redeployed to emergency settings artificial hips and similar implants are not selling like they used to. The company swung to a $509m first-quarter net loss, from a $246m profit a year ago.

A look at the companies in various sectors shows the orthopaedic companies to be hit hardest. And among the top five orthopaedics groups Medtronic has fared worst of all, but the group has an unusual reporting period: its fiscal year ended on April 24, so will have reflected an extra month or so of the negative effects from Covid-19 versus those companies whose reporting periods end on March 31.

Speaking on Medtronic’s earnings call today, its freshly minted chief executive, Geoff Martha, said the fiscal first quarter to July would be “modestly worse” than the fourth, thanks to continued delays to non-urgent procedures, and buyers’ resistance to bulk and capital equipment purchases.

It was no surprise that the group failed to meet its full-year outlook for earnings per share, particularly since in February Medtronic actually raised its estimates, from $5.57-$5.63 to $5.63-$5.65. In the event EPS clocked in at $4.59.

The company broke with tradition in refusing to provide sales growth guidance for fiscal 2021.

How Covid-19 has affected selected ortho companies						
Date of earnings	**Company**	**Quarterly sales ($bn)**	**YoY chg**	**Quarterly profit/(loss) ($m)**	**YoY chg**	**Guidance**
April 14	Johnson & Johnson	20.7	3.3%	5,796	54.6%	Cut
April 30	Stryker	3.6	2.0%	493	19.7%	Withdrawn
May 11	Zimmer Biomet	1.8	(9.7%)	(509)	N/A	Withdrawn
May 21	Medtronic*	6.0	(26.4%)	646	(44.9%)	Not provided
May 6	Smith & Nephew	1.1	(5.7%)	Not reported	N/A	Withdrawn
**Fiscal Q4 numbers; Q1 for the remaining companies. Source: company communications.*						

Zimmer's quarterly sales were not down as much as Medtronic's, but tipping from a respectable profit into a sizeable loss is a poor showing. Its chief executive, Bryan Hanson, said while the Covid-19 pandemic had "absolutely changed the landscape for everyone", it had affected Zimmer itself "probably more than most, just given our dependence on elective procedures".

Zimmer's chief financial officer, Suky Upadhyay, echoed Medtronic's warning of the pain to come, saying the company would see a "sequential deepening of procedural deferral rates" in the second quarter, relative to the first. The group has already noted a consolidated revenue decline of about 70% in April compared to a year ago.

Faint heart

Companies active in the cardiovascular space have also fared poorly, and for the same reason – all but the most urgent procedures are being postponed. Boston Scientific's net profit was almost wiped out in the first quarter, though sales marginally increased.

Not so Edwards Lifesciences: the valve specialist had a rip-roaring period, despite stating that its sales were "significantly impacted" by the effects of Covid-19 the last few weeks of the first quarter. It cut full-year revenue guidance from $4.6-5.0bn to $4.0-4.5bn.

Johnson & Johnson was protected to some degree by still being something of a conglomerate. It is a major player in cardio and ortho sectors, but with its pharmaceutical and consumer care businesses it was relatively cushioned. It still cut 2020 outlook, though: J&J now expects to report 2020 sales of $77.5-80.5bn, down from its previous estimate of $85.4-86.2bn.

How Covid-19 has affected selected cardio companies						
Date of earnings	**Company**	**Q1 2020 sales ($bn)**	**Yoy chg**	**Q1 profit (loss) ($m)**	**Yoy chg**	**Guidance**
April 29	Boston Scientific	2.5	2.0%	11	(97.4%)	Withdrawn
April 16	Abbott Laboratories	7.7	2.5%	564	(16.1%)	Withdrawn
April 23	Edwards Lifesciences	1.1	13.7%	311	24.4%	Cut
Source: company communications.						

Most medtechs recognise that if the first quarter was hard, the second would be harder. It is interesting that only two of the companies analysed here felt able to restate 2020 guidance, giving investors some sort of roadmap, rather than simply withdrawing it. With millions in the US losing their jobs, and the health insurance that goes with them, thanks to the pandemic, tough times are undoubtedly coming.

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Evaluate HQ
44-(0)20-7377-0800

Evaluate Americas
+1-617-573-9450

Evaluate APAC
+81-(0)80-1164-4754