Evaluate Vantage

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Covid-19 divides the biggest medtechs

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Success or failure on the stock markets this year depended almost entirely on whether a company's devices could be used to treat coronavirus patients.

No prizes for guessing the major factor hitting big-cap medtechs' share price performance across the first half of 2020. Ventilator manufacturers and testing specialists are up, and orthopaedics and cardiology groups are down as the pandemic forces hospitals to reorder their priorities.

Intriguingly, though, the top riser has little to do with Covid-19. The blood glucose sensor developer Dexcom is up 85%, buoyed by collaborations and regulatory approvals. The group was hit by the wider stock market downturn in March as the scale of the Covid-19 crisis became apparent, but recovered easily by the end of the month, showing what can be accomplished even in hard times by a company with in-demand technology.

A look at share price indices covering this sector shows just how catastrophic the first half of 2020 has been. Over the course of last year, these indices showed growth of around 30%; now they paint a picture of an industry struggling to find a path through the mire.

Stock index	% change in 2020
Thomson Reuters Europe Healthcare (EU)	1%
Dow Jones U.S. Medical Equipment Index	-1%
S&P Composite 1500 HealthCare Equipment & Supplies	-4%

Dig deeper and it becomes clear that the pandemic has split the big-cap cohort neatly into winners and losers along subsector lines. Ventilator companies Fisher & Paykel and Resmed are up, as are diagnostics groups, including Biomerieux, Bio-Rad, Sysmex and Hologic, all of which have Covid-19 tests approved in various territories.

Fisher & Paykel also benefited from its New Zealand base and listing; the country has done a superb job of first containing and then stamping out Covid-19, and the S&P NZX All Health Care index is up 17% so far this year.

Also riding high are Masimo, a patient-monitoring specialist, and Coloplast, which makes devices necessary to care for hospitalised patients such as catheters and dressings. Coloplast saw a significant increase in demand for its products towards the end of March, as hospitals built stockpiles to deal with the expected influx of patients.

Abiomed navigated Covid-19 with aplomb, defying the pressures the pandemic inflicted on other cardiovascular companies. In April it acquired Breethe, a start-up developing an ECMO machine, just the kind of technology investors rush towards during an outbreak of a respiratory infection. Then at the start of June the FDA issued an emergency authorisation for Abiomed’s Impella RP heart pump for use in Covid-19 patients with right-side heart failure.

Large cap ($10bn+) medtech companies: top risers and worst performers in H1 2020			
	Share price 6-mth chg	**Market cap at Jun 30 ($bn)**	**Market cap 6-mth chg ($bn)**
Top 5 risers			
Dexcom ($)	85%	37.4	17.4
Fisher & Paykel Healthcare (NZ$)	60%	12.3	4.2
Biomérieux (€)	54%	15.7	5.4
Masimo ($)	44%	12.3	3.9
Abiomed ($)	42%	10.7	3.2
Top 5 fallers			
Hitachi (¥)	(26%)	30.6	(10.8)
Boston Scientific ($)	(22%)	49.1	(13.9)
Smith & Nephew ($)	(21%)	16.7	(4.3)
Zimmer Biomet ($)	(20%)	24.6	(6.2)
Medtronic ($)	(19%)	123.0	(29.1)

The fallers are just as easily delineated. All lost out because their products are used in the kinds of elective procedures that hospitals and other sites have had to shelve – mostly orthopaedic, cardiac and dental surgery.

Hitachi, whose medical business centres on imaging, saw big losses as patients in need of scans stayed away in droves. Orthopaedics companies Smith and Nephew and Zimmer Biomet were hit hard, and Medtronic, active in both the cardiovascular and orthopaedics sectors, also suffered (*Covid-19 takes a toll on medtech’s first quarter, May 21, 2020*).

Other non-urgent activities were put on the back-burner. The dental implant maker Straumann and invisible braces specialist Align Technologies fell, as did lens makers Alcon and Essilorluxottica, as dentists and optometrists shut their doors. Sonova’s shares slid as patients decided to go a little longer without buying or upgrading their hearing aids.

Even the robotic surgery market leader Intuitive Surgical, a perennial stock market darling, is down 4% so far this year.

The most notable movers without a direct and obvious link to the coronavirus pandemic are Insulet, up 16%, and the big-cap champion, Dexcom. Instead their success is largely down to solid demand for their diabetes devices – insulin pumps and blood sugar monitors respectively – and the research collaborations they have pursued with the aim of developing an artificial pancreas system (*Collaborative diabetes tech on the Horizon, February 20, 2020*). It is hard not to wonder how these groups might have fared in a more normal year.