

Philips spends big in-house while Becton favours buying



[Elizabeth Cairns](#)



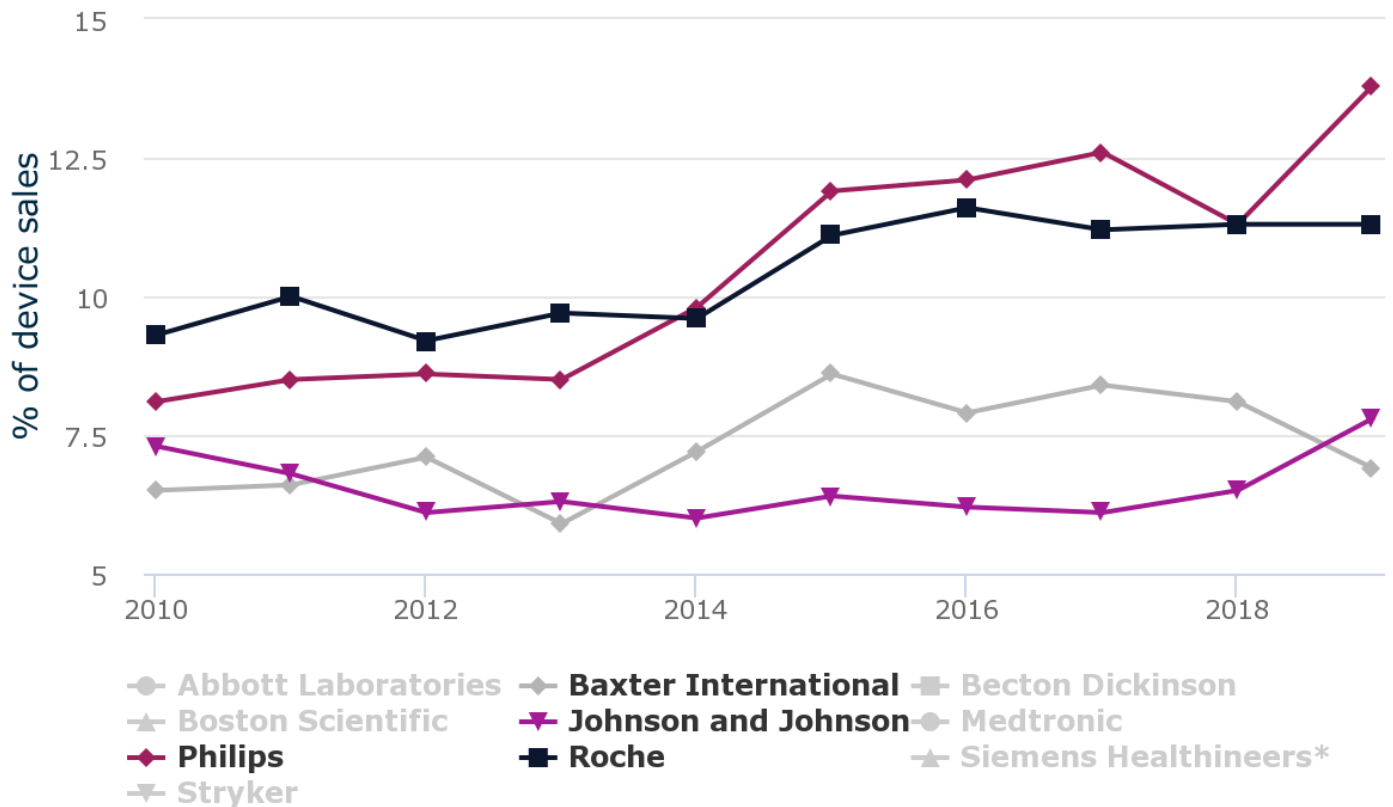
The largest medtech companies have differing business development strategies, but tend to be on the same page on R&D spending.

Decisions on how to allocate cash to ensure a steady stream of new medical technologies are the bread and butter of device companies' management teams. How much of a group's revenue should be reinvested into research and development, and how much into buying in promising young companies?

The below analyses show that as big medtech's total spend on R&D has risen slightly over the past decade – from \$9.5bn in 2010 to just under \$10bn last year – investment as a percentage of medtech sales has also edged higher, to around 9%. Spending on acquisitions varies much more widely, with some groups spending more than a quarter of their cumulative revenues over the past decade on M&A.

The biggest proportional spender on research last year was Philips, which ploughed nearly 14% of its medical device sales into developing new technologies. The company has reinvented itself to become totally focused on healthcare, selling off units such as audio-visual and lighting piecemeal over the past few years. It is clearly serious about investing in innovative medical products to secure a reputation as a major medtech player.

Medtech R&D spend as % of medtech sales



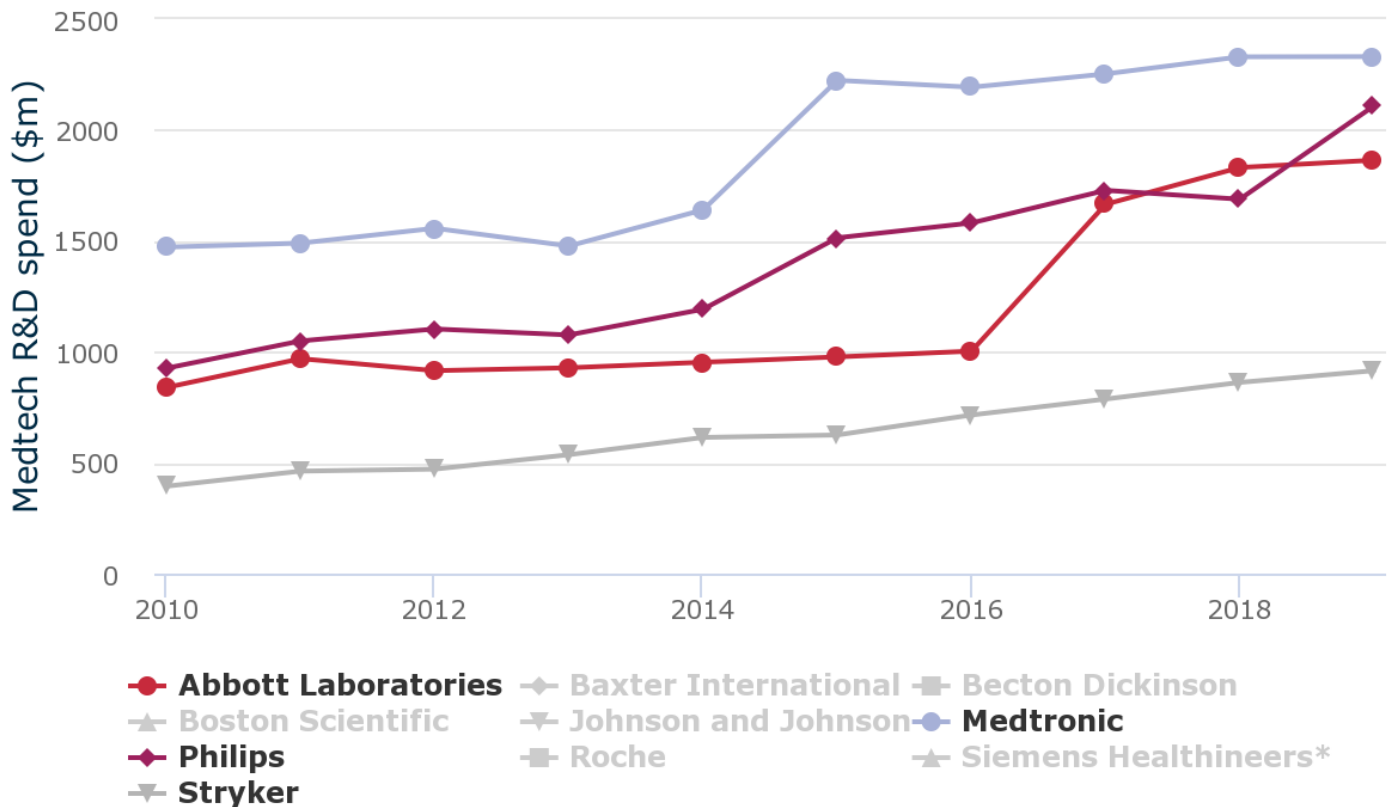
Source: EvaluateMedTech; Interactive chart/legend

The interactive graph above was compiled using companies' stated expenditure on R&D specifically in medtech, as well as their medical devices sales. The figures for groups with pharmaceutical operations, like Johnson & Johnson and Roche, will therefore differ from those seen in *Evaluate Vantage's similar analysis covering big pharma*.

The smallest spender on this measure is the orthopaedics company Stryker, which spent just 6.2% of its revenues on R&D last year – perhaps reflecting the orthopaedics sector's reputation as one of the less innovative. But Stryker is relatively acquisitive, and prioritises its reinvestment towards buying companies with promising technologies.

Despite the overall cohort boosting its R&D spend over the past decade, several groups have in fact decreased their research spend-to-sales ratio. Boston Scientific, for example, invested 12% of its revenues in research in 2010, versus 10.7% in 2019. And Baxter International's proportional investment fell from a peak of 8.6% in 2015 to just 6.9% last year.

Top 10 medtechs' R&D spend



Source: EvaluateMedTech; Interactive chart/legend

In absolute terms Medtronic dedicates the most cash to research, with a \$2.3bn R&D budget last year - unchanged from the year before. With a box-fresh chief executive, Jeff Martha, in place after Omar Ishrak's nine-year term leading the world's biggest medtech, it will be interesting to see if any big changes are on the way.

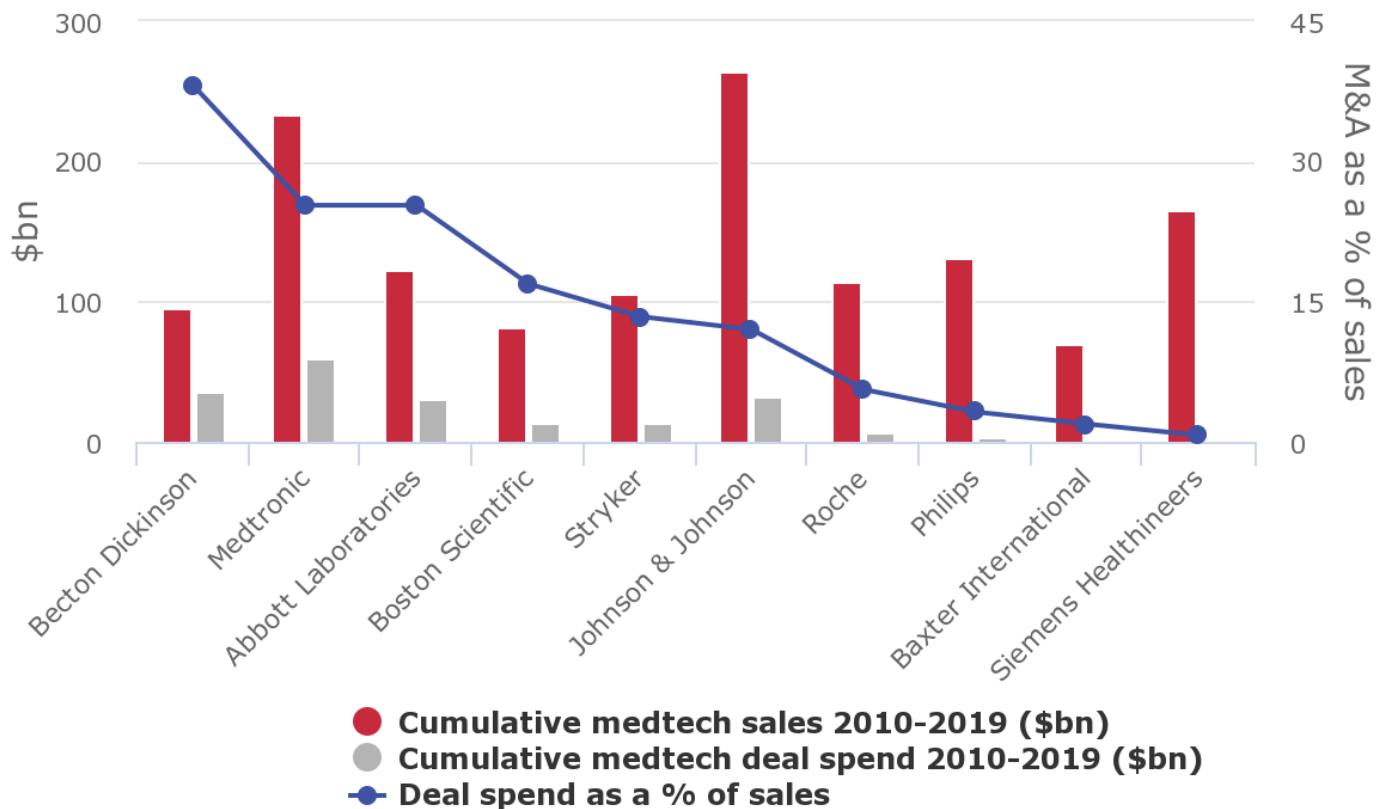
Mergers

It is also worth looking at the other way device makers ensure a ready supply of products to sell: buying them in. Strategies vary widely here, and it is impossible to analyse the data on an annual basis as has been done with R&D. Instead the graph below compares cumulative sales of medical devices between 2010 and 2019 with the cumulative amount spent on medtech M&A during the same period.

While Medtronic is, again, the biggest spender in dollar amounts - its \$50bn acquisition of Covidien in 2015 saw to that - Becton Dickinson is top of the leaderboard in percentage terms, having dedicated an astonishing 38% of its sales over the past decade to M&A. Its purchase of CR Bard in 2017, for \$24bn, and acquisition of Carefusion in 2015 for \$12.2bn were major factors.

Becton Dickinson is active in a wide range of sectors, with most of its sales coming from drug delivery and diagnostics. Its revenues have increased from \$6.1bn to \$16bn over the past decade, but further increases might be welcomed by investors keen for evidence to justify its eagerness to buy in new products.

Medtech M&A deal spend as a % of sales



Source: EvaluateMedTech; Interactive chart/legend

Abbott and Medtronic both dedicated roughly a quarter of their 2010-19 sales to M&A. In Abbott's case the biggest deal was the purchase of St Jude Medical in 2017 for \$25bn, but the same year saw the somewhat acrimonious acquisition of Alere. At one point Abbott had sought to call the deal off after Alere was embroiled in a string of disasters ([Can Abbott kill the Alere deal?](#), December 8, 2016).

Ultimately the acquisition was closed at a much reduced price. But the debacle appears to have made Abbott reluctant: since then it has made only one acquisition, of the valve developer Cephea; terms were not disclosed.

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