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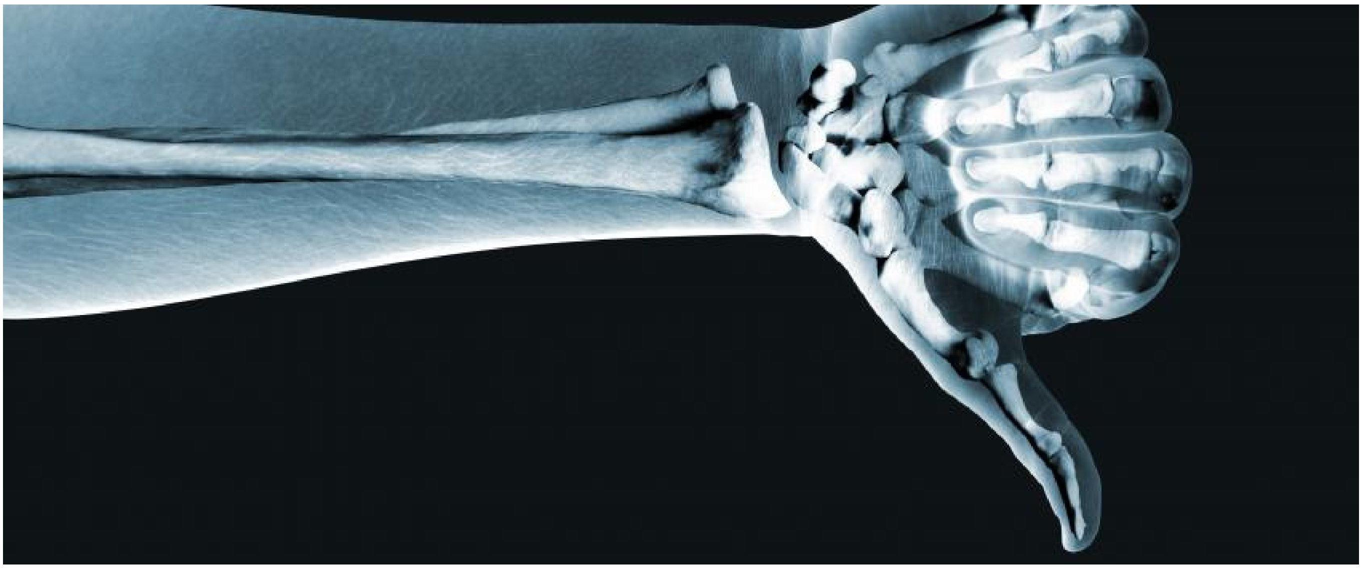
Orthopaedics companies' nightmare quarter

Elizabeth Cairns



The Covid-19 pandemic has scythed vast sums from joint makers' Q2 sales. But Medtronic's summer earnings were better than those for its spring quarter.

When reporting their first quarter results three months ago, many medtechs warned that the second quarter would be pretty brutal. And for the majority this bleak forecast came true – but there were a few bright spots in the darkness.

Two of the most prominent were Qiagen, whose Covid-19 diagnostics have sold so well they indirectly led to the cancellation of its $12.5bn takeover by Thermo Fisher Scientific, and Resmed, a maker of breathing devices that have been repurposed as ventilators for seriously ill Covid-19 patients. But many more companies have lost out – and in percentage terms the orthopaedics groups have had a real nightmare.

Zimmer Biomet has done worst of all, its revenues contracting 38% compared with the second quarter of 2019. The company was the only major medtech to fall into the red in the first quarter, a loss that nearly quadrupled to $208m in the second quarter. The joint implant developer is heavily reliant on elective procedures, many of which have been cancelled or postponed during lockdown.

Even so, Zimmer described this showing as better than expected, following the narrative established by companies including Johnson & Johnson and Abbott, which also said that elective procedure volumes had bounced back faster than expected. And lost sales could yet be recouped: Zimmer estimates that its backlog of deferred patients represents $700-800m of future revenue.

Realising this will depend on patients and doctors feeling it is safe to go ahead. With the virus constantly threatening to erupt once more and employment – and thus insurance – on the downswing it would be unwise to count on these sales appearing in the short term.

While J&J's total second-quarter sales were only down 11% year-on-year, its medical device wing did poorly, with revenues down 34% on the same period last year. J&J was the only company that raised its full-year guidance from the reduced figure it gave in April – though at $80-81bn this was some way behind the $85-86bn it had initially forecast in January.

How Covid-19 has affected selected ortho companies				
Date of earnings	**Company**	**Q2 2020 sales ($m)**	**Change from Q2 2019**	**Q2 2020 profit (loss) ($m)**
August 4	Zimmer Biomet	1,226	(38%)	(208)
July 16	Johnson & Johnson*	4,288	(34%)	3,626
August 4	Nuvasive	204	(30%)	(50)
July 29	Smith & Nephew	901	(30%)	172
July 30	Stryker	2,764	(24%)	(83)
August 5	Globus Medical	149	(23%)	(21)
**Medtech-only sales; profit for entire group. Source: company communications.*				

Among cardiovascular companies there was likewise little cheer. Both Boston Scientific and Edwards Lifesciences slipped from profit in the first quarter of 2020 to a loss in the second. Boston did not provide any full-year guidance, having withdrawn it in April; Edwards' full-year guidance, which had been cut in the spring, was unchanged at $4-4.5bn.

Medtronic, reporting its first-quarter fiscal 2021 results today, echoed the faster-than-expected recovery line. Its sales were down 12% compared with the first quarter of fiscal 2020. However, Medtronic was the only group among the big medtech cohort to do better in the summer than the spring: Medtronic's fiscal fourth quarter sales, reported mid-May, were down 26% year-on year (*Covid-19 takes a toll on medtech's first quarter, May 21, 2020*).

This is a good omen considering Medtronic's odd reporting periods. Its spring quarter ran from February to April rather than January to March, and likewise the summer quarter is a month ahead of the vast majority of other medtech groups. The better performance Medtronic enjoyed in summer is a result of improving procedure volumes in July as hospitals reopened for many elective surgeries – other cardiovascular, surgical and ortho groups will be hoping to see the same trend in their current autumn quarters.

Deep breath

The big winners, though, were active in other therapeutic areas. Diagnostics specialists Danaher and Qiagen both saw their second-quarter revenues climb 19% on the strength of their Covid-19 tests – though Danaher also benefited from the closure of its $21bn acquisition of GE Biopharma. Qiagen's quarterly profit more than doubled year-on-year, and management will have to build on this if it is to chart a successful course as a standalone business (*The Thermo-Qiagen saga comes to an end, August 13, 2020*).

Resmed also had a successful quarter – though this was not quite as good as its spring period. Reporting its third-quarter 2020 results in April, it said that sales of its respiratory devices, including the CPAP machines usually used to help sleep apnoea patients breathe at night but which were repurposed as ventilators for hospitalised Covid-19 patients, had risen 16% year-on-year.

In its fourth quarter, sales were up 9% compared with the same period in 2019. This reflects the shift to milder infections in younger patients that seems to be happening during the current second wave of infections – as well as the fact that many hospitals are now well-stocked with ventilation devices.

Other selected winners and losers					
Date of earnings	**Company**	**Q2 2020 sales ($m)**	**Change from Q2 2019**	**Q2 2020 profit (loss) ($m)**	**Focus**
Jul 23	Danaher	5,297	19%	927	Diagnostics
Aug 4	Qiagen	452	19%	90	Diagnostics
Aug 5	Resmed*	770	9%	178	Respiratory
Aug 25	Medtronic**	6,611	(12%)	487	Cardiology; surgery; neurology; orthopaedics
Jul 23	Edwards Lifesciences	925	(15%)	(122)	Cardiology
Jul 21	Intuitive Surgical	852	(22%)	68	Surgery
Jul 29	Boston Scientific	2,003	(24%)	(147)	Cardiology

**Resmed's results for Q4 2020. **Medtronic's results for Q1 2021. Source: company communications.*

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

Evaluate Americas
+1-617-573-9450

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