

A beautiful autumn for Covid-19 test makers



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Though orthopaedics companies have begun to recover from the second quarter's horrors, it is clear that the third quarter belongs to the diagnostics specialists.

Today Medtronic, the medtech earnings season's perennial latecomer, reported quarterly results that could fairly be described as mediocre, its sales having shrunk 1.5% year-on-year. But set against its poor performance earlier this year, this is something like a recovery. Heavily involved in orthopaedics and cardiology, Medtronic exemplifies the trends in these pandemic-devastated sectors.

Groups involved in testing for the coronavirus have had quite the opposite experience. In terms of third-quarter year-over-year sales growth, the top four medtechs are all pure-play diagnostics groups, all with marketed Covid-19 tests.

The leader of this cohort, Exact Sciences, saw its third-quarter sales nearly double, which it attributed partly to its Covid-19 test. This generated \$102m in revenue against the markets' expectations of \$40m.

Another quarter-on-quarter bump came as a result of M&A: Exact posted sales of around \$91m from the cancer diagnostics it obtained via the takeover of Genomic Health last year. Its \$1.7bn purchase of the liquid biopsy group Thrive last month is unlikely to reap similar benefits so rapidly, however ([Exact chases its dream with \\$1.7bn Thrive deal, October 27, 2020](#)).

How Covid-19 has affected selected diagnostics companies

Date of earnings	Company	Q3 2020 sales (\$m)	Change from Q3 2019	Q3 2020 profit (loss) (\$m)
October 27	Exact Sciences	408	87%	(220)
October 27	Qiagen	484	26%	17
October 22	Danaher*	1,889	18%	884
October 15	Roche*	3,918	11%	Not reported
October 21	Abbott Laboratories	8,853	10%	1,232
November 5	Becton Dickinson**	4,784	4%	128
November 2	Siemens Healthineers**	4,536	(6%)	506

*Medtech sales only. **BD and Healthineers results for Q4 2020. Source: company communications.

This time last year Qiagen was enduring a catastrophic quarter ([Storm-tossed Qiagen plots a course to higher growth](#), October 8, 2019). How things change. The company's third quarter was even better, in terms of year-on-year sales growth, than its excellent second, its suite of Covid-19 tests having enabled it to give Thermo Fisher the brush-off in the meantime ([The Thermo-Qiagen saga comes to an end](#), August 13, 2020).

The only large medtech with a significant in vitro diagnostics presence to have seen its revenues decline in the autumn quarter was Siemens Healthineers. Roughly 27% of the company's sales come from testing, and it has been at the forefront of innovation in the fight against the coronavirus, pioneering quantitative antibody tests that detect neutralising antibodies in particular.

Despite this it has not kept up with the diagnostics pack. The rest of its business concerns imaging systems – exactly the kind of expensive machinery hospitals are avoiding buying during a pandemic which is forcing them to spend huge sums on emergency medicine.

Emergency

Emergency medicine is exactly where the leader of the non-diagnostics groups operates. In July-September 2020, Resmed's sales increased 10% year on year as strong demand for its ventilators and other breathing devices continued.

Deferred surgical procedures are the sole reason for the year-on-year sales lags at the other end of the scale. Demand for Intuitive Surgical's vastly expensive robotic surgery systems is atrophying as hospitals postpone what treatments they can to focus on Covid-19.

Other selected winners and losers

Date of earnings	Company	Q3 2020 sales (\$m)	Change from Q3 2019	Q3 2020 profit (loss) (\$m)	Focus
October 29	Resmed*	752	10%	178	Respiratory
October 28	Globus Medical	216	10%	44	Orthopaedics
October 19	Philips	5,902	6%	403	Respiratory, diagnostic imaging
October 13	Johnson & Johnson**	6,150	(4%)	3,554	Orthopaedics
October 29	Smith & Nephew	1,200	(4%)	Not reported	Orthopaedics
October 15	Intuitive Surgical	1,078	(4%)	314	Surgery

*Resmed results for Q1 2021. **Medtech sales only. Source: company communications.

Some orthopaedics groups, while no longer mired in the kind of 25-40% quarter-on-quarter sales falls [they suffered in the summer](#), are still not back to growth. Johnson & Johnson and Smith & Nephew both saw mild sales decreases as procedure volumes still lag last year.

But for others the green shoots of recovery are starting to appear. Zimmer Biomet and Nuvasive could both muster 2% year-on-year growth in the third quarter of 2020, and Stryker managed 4%. Globus Medical was the only ortho company to have enjoyed double-digit growth this past quarter.

In home offices around the world, medtech executives will be asking themselves whether this recovery can last. In the US the pandemic is worsening, and it is unlikely that widespread vaccination will be in place for another half-year at best. The coming winter quarter, and perhaps the one after that, might bear an uncomfortably close resemblance to medtech's miserable summer.

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