Evaluate Vantage

February 24, 2021

Medtech’s haves and have-nots

Elizabeth Cairns

Medtronic’s quarterly results yesterday might presage a recovery, and some groups are in dire need of one.

Nearly a year after the Covid-19 outbreak turned into a pandemic, the medtech industry is still starkly divided. All the top performers, in terms of fourth-quarter year-on-year sales growth, are diagnostics companies selling tests for the coronavirus. Those whose sales were down are mostly orthopaedics specialists.

But there are nuances within these broad trends. Exact Sciences, the winner overall with fourth-quarter sales up 58%, flipped from profit to a sizeable loss thanks to its $410m tuck-in of Base Genomics, one of many acquisitions it did last year. And the company that saw the most disappointing drop-off in sales was Boston Scientific, a cardiovascular, rather than ortho, group.

At the end of January Abbott became the first big medtech to have exceeded its earnings growth forecast for 2020. This achievement came thanks largely to its suite of Covid-19 tests, which brought in $2.4bn in the fourth quarter, causing worldwide diagnostics revenues to more than double. The company’s two rapid lateral flow antigen tests, BinaxNow in the US and PanBio in Europe, as well as ID Now, its portable molecular test, made up the lion’s share of Covid-19 testing sales.

Abbott is not holding back for 2021, posting highly bullish adjusted earnings guidance of $5 per share. The group believes that Covid-19 testing demand is going to remain high even as vaccines are launched. The company expects Covid-19 assays to yield around $2.5bn in revenue in the first quarter of 2021, and perhaps $6-7bn across the whole year.

Q4 2020 - the winners					
Date of earnings	**Company**	**Q4 2020 sales ($m)**	**Sales chg**	**Q4 2020 profit (loss) ($m)**	**Profit chg**
Feb 16	Exact Sciences	466	58%	(437)	N/A
Feb 1	Thermo Fisher Scientific	10,550	54%	2,498	149%
Feb 9	Qiagen	571	38%	213	374%
Jan 27	Abbott Laboratories	10,701	29%	2,162	106%
Feb 4	Becton Dickinson*	5,315	26%	1,003	261%
Jan 28	Danaher**	2,227	23%	1,241	(3%)
Feb 4	Roche**	4,135	20%	Not reported	N/A
**BD results for Q1 2021. **Medtech sales only. Source: company communications.*					

Qiagen too beat its full-year guidance, and while its sales increased nicely – its Covid-19 tests brought in $200m, 35% of fourth-quarter sales – the near-quintupling of its profits was the more impressive achievement. This was partly the upshot of Qiagen's 2019 decision to can its next-generation sequencing programme and pursue a cost-cutting plan (*Storm-tossed Qiagen plots a course to higher growth, October 8, 2019*).

In the doldrums

At the other end of the scale came the orthopaedics groups. Some, including Globus Medical and Stryker, kept their heads above water, but Johnson & Johnson, Zimmer Biomet and particularly Smith & Nephew were hit hard by hospitals delaying the hip and knee replacement procedures that are their bread and butter.

In response, Zimmer opted to redouble its focus on its joint implants by spinning out its sluggish spinal and dental units (*Zimmer ditches slow-growing business to refocus, February 8, 2021*).

Q4 2020 - the losers						
Date of earnings	**Company**	**Q4 2020 sales ($m)**	**Sales chg**	**Q4 2020 profit ($m)**	**Profit chg**	**Focus**
Jan 26	Johnson & Johnson*	6,589	(1%)	1,738	(57%)	Orthopaedics
Feb 5	Zimmer Biomet	2,085	(2%)	334	4%	Orthopaedics
Feb 18	Smith & Nephew	1,326	(6%)	295	(64%)	Orthopaedics
Feb 3	Boston Scientific	2,708	(7%)	152	(96%)	Cardiovascular
**Medtech sales only. Source: company communications.*						

Boston Scientific, meanwhile, has had a pretty nightmarish year. Its sales shrank by 24% in the second quarter and showed smaller year-on-year dips in subsequent periods. It took an additional hit in November when it discontinued its problematic Lotus aortic valve (*Boston deadheads its Lotus, November 17, 2020*). The company last month made a bid for increased relevance in the post-Covid world by buying the remote cardiac monitoring specialist Preventice for $925m, but the benefits of this deal will take time to emerge.

Snap back

As Covid-19 vaccination programmes continue, the future becomes brighter for these troubled groups. There are already some early hints that hospitals are gearing up for an increase in elective procedures.

Reporting its fiscal third quarter 2020 results yesterday, Medtronic said sales of its equipment such as energy consoles, surgical robotics and navigation systems had been notably strong. Use of these technologies is tied directly to procedures, chief executive Geoff Martha said, suggesting that hospitals are preparing for a "snap back in patient volumes” over the coming months.

Medtronic posted a 1% sales increase for the three months ended January 29, 2021. Use of this fiscal period means that Medtronic is unique in that it is a month or so ahead of its peers, all of whom reported data for the October-December 2020 period – though Siemens, Becton Dickinson and Resmed do not consider this their fourth quarter.

Arguably Medtronic offers a glimpse of the future as a result. Since the company foresees a swift recovery in elective procedures based on January’s sales patterns, better times for suffering device companies might be at hand.

Q4 2020 - the rest						
Date of earnings	**Company**	**Q4 2020 sales ($m)**	**Sales chg**	**Q4 2020 profit ($m)**	**Profit chg**	**Focus**
Feb 17	Globus Medical	233	10%	53	16%	Orthopaedics
Jan 28	Resmed*	800	9%	180	12%	Respiratory
Feb 1	Siemens Healthineers**	4,651	8%	525	44%	In vitro diagnostics, imaging
Jan 21	Intuitive Surgical	1,329	4%	365	2%	Surgery
Jan 27	Stryker	4,262	3%	568	(22%)	Orthopaedics
Jan 27	Edwards Lifesciences	1,192	1%	310	10%	Cardiovascular
Feb 23	Medtronic***	7,775	1%	1,279	(33%)	Cardiovascular; orthopaedics; other
Jan 25	Philips	7,292	1%	738	9%	Respiratory, diagnostic imaging
**Resmed results for Q2 2021. **Healthineers results for Q1 2021. ***Medtronic results for Q3 2020. Source: company communications.*						

More from Evaluate Vantage

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

Evaluate Americas
+1-617-573-9450

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