Evaluate Vantage

November 24, 2021

A radical strategy for Medtronic

Elizabeth Cairns

The sellside expects the world's leading medtech to be outpaced by its rivals. Divestments might allow the group to defy this destiny.

The ho-hum second-quarter results proffered by Medtronic yesterday were enlivened by chief executive Geoff Martha's statement that management was spending "a lot more time" looking at its portfolio and mulling the potential advantages of spinning one or more of its units off.

It is certainly true that some of the group's businesses have been underperforming recently, and many are forecast to do so in the future, too. So which units might do better elsewhere?

Medtronic is not known for divestments – its last one was the sale of some laparoscopy instruments and devices used in ear, nose and throat procedures to Integra Lifesciences, for $60m in 2014. But slimming down is all the rage at the moment, with General Electric due to spin off its healthcare business next year and Johnson & Johnson planning the separation of its consumer division.

While Mr Martha said that Medtronic was looking at its "high performance … and high growth businesses to make sure we're the right owner", slower-growing units are also possible candidates.

Underperforming the market

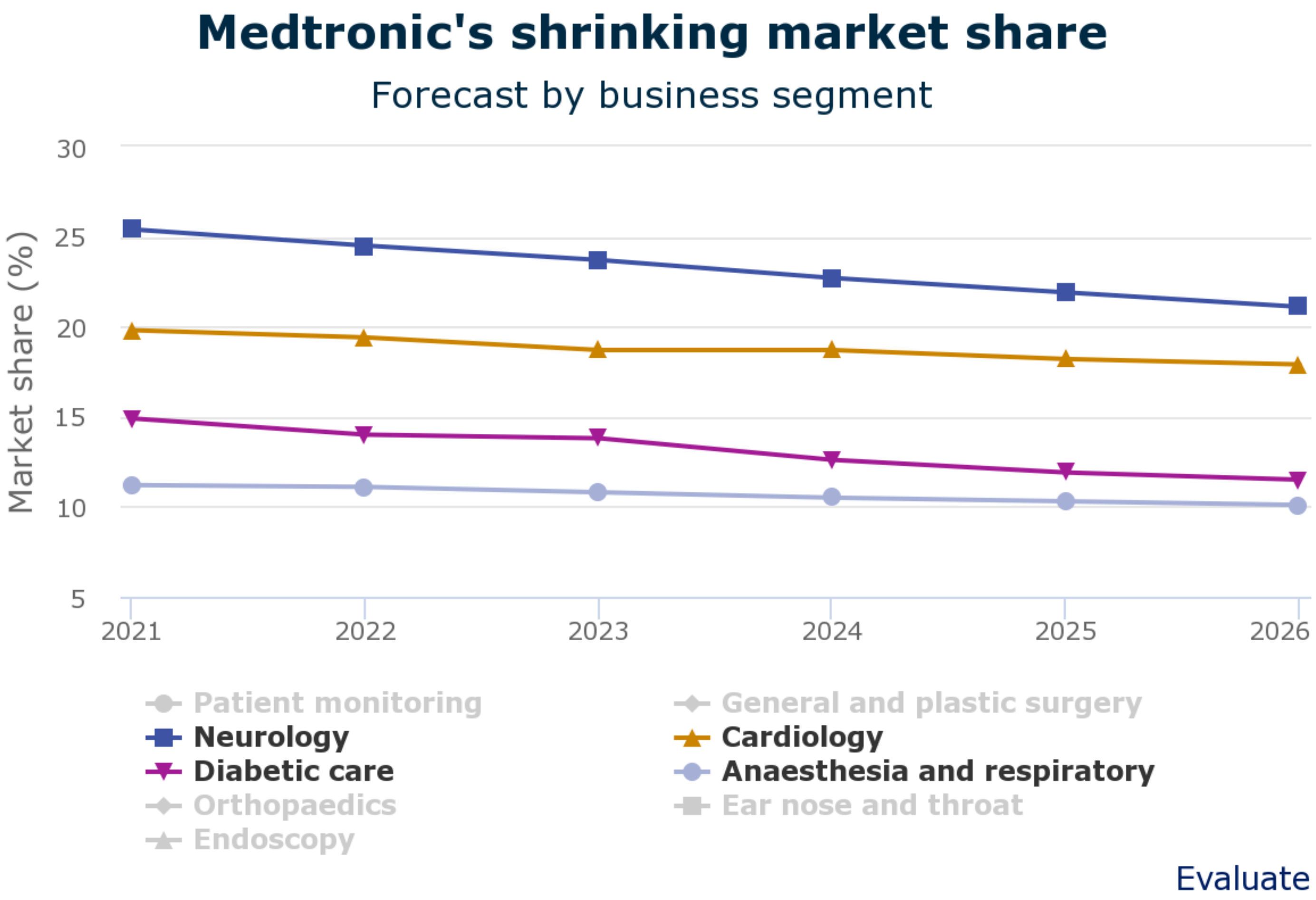
In the recent term these include the company's respiratory, gastrointestinal and renal segment, fiscal second quarter revenues from which decreased 11% from the prior year on an organic basis. This was driven by the respiratory part: ventilator sales declined by around 55% as demand returned to pre-pandemic levels.

Sales of Medtronic's spinal technologies also decreased, though only by the mid-single digits, owing to fewer spine procedures going ahead as a result of the Covid-19 resurgence. Sales of its diabetes technologies increased slightly year-on-year, but Mr Martha conceded that the group is losing share in the market, being slowly edged out by groups including Abbott and Dexcom.

The revenues Medtronic gains from all its business units are forecast to grow from 2020 to 2026, at between 3% and 7% a year, *Evaluate Medtech* data show. But a look at consensus forecasts for Medtronic's market share reveals that the sellside expects Medtronic to lose ground in almost all the arenas in which it plays.

For example, its largest business unit, cardiovascular, had revenues of $10.8bn last year and occupied 20% of the market. But its share is forecast to shrink to 18% by 2026, despite its sales being forecast to grow 6% annually in that time. In other words, analysts see Medtronic being outpaced by the competition.

The group's share of the diabetes and neurology markets is forecast to slide even faster.



But the chances of Medtronic divesting its cardiovascular or diabetes technologies are very slim. They are two of the company's core areas, and moreover are closely aligned.

Perhaps orthopaedics might be carved out. Medtronic has less than 10% of this market and its ortho revenues are forecast to grow at just 3% to 2026. This segment might do better as part of one of the more specialised groups in this sector. The market leader Zimmer Biomet, for instance, has suffered mightily from the pandemic, and might be interested in boosting its share from the current 15%. That said, Zimmer has been doing divestments of its own.

Respiratory devices are an option too. Forecast to grow slowly, this business is arguably not closely related to Medtronic’s other operations. It is fairly small, making up less than 5% of Medtronic’s total revenues, which would make the spinout relatively simple. By the same token, however, it would make little difference to Medtronic’s overall growth.

This is, of course, all speculation. In theory, cutting away some of the dead wood ought to allow Medtronic to arrest the forecast decline in market share in the areas it retains. But whether it will take this route, and what it might sell off if it does, remain hard to call.

More from Evaluate Vantage

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

Evaluate Americas
+1-617-573-9450

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