

Ablation wars heat up as St. Jude buys Endosense



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The market for cardiac ablation catheters, devices designed to treat atrial fibrillation (AF) by scarring heart muscle, is highly competitive, as yesterday's US approval of Boston Scientific's IntellaTip MiFi XP catheter illustrates. St. Jude Medical's purchase of ablation tech developer Endosense for SFr159m (\$171m) cash is surely intended to reinforce its position in this increasingly crowded space.

It may do more than merely hold St. Jude's place. Should Endosense's lead product, the force-sensing radiofrequency catheter TactiCath, gain premarket approval (PMA) as is expected, its new owner could pull away from its competitors Johnson & Johnson and Boston Scientific to become the company with the greatest number of innovative ablation catheters on the US market (see table). However, Johnson & Johnson's subsidiary Biosense Webster is also active here and could beat St. Jude to market.

Growing appreciation

TactiCath has an advantage over most other catheters on the market as it is designed to detect the force with which its tip comes into contact with the heart muscle. The device then gives a visual indication of the pressure between the catheter tip and the heart wall to the physician throughout the procedure.

Poor contact naturally limits efficacy and risks AF recurrence, while too much pressure risks tissue injury and serious complications. Analysts from JP Morgan say that there is growing appreciation of the importance of ensuring optimal tip contact during ablation procedures.

J&J is developing a device with a similar contact-sensing ability. The Thermocool Smarttouch ablation catheter showed signs of improved efficacy in a 172-patient study. A US PMA submission was made in June, and, like TactiCath, it is already on sale in Europe.

A PMA filing for TactiCath is expected before the end of 2013, with approval triggering a \$161m milestone payment from St. Jude. JP Morgan analysts believe that this payment scales down over time, limiting St. Jude's risk in the event that the agency is not receptive.

Bump

Approval could also bump St. Jude to the top of the table in terms of ablation catheter first-time PMAs, the type of approval necessary for the most groundbreaking devices, plus its 510(k) approval count. IntellaTip MiFi XP has received a PMA supplement rather than a first-time approval so this does not alter Boston's count.

Analysts from Bank of America Merrill Lynch say that the technology could help St. Jude grow its share of the \$900m global ablation catheter market – currently about 15-20% – not least because the company can incorporate the force-sensing technology into its own suite of ablation catheters.

TactiCath is CE marked for both AF and supra ventricular tachycardia (SVT), but Endosense's revenues are minimal. The deal will cause a drop in EPS of no more than a few cents, which St. Jude can make up through EPS flexibility built in from a recent share buy-back and its ongoing cost-saving initiatives, according to BoA; JP Morgan says that the deal will be neutral to St. Jude's 2013 EPS.

Endosense's low revenues will be of little concern to St. Jude if the company's technology allows it to snare a large share of the lucrative US ablation market.

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