

## Stryker takes a stride into the future with \$1.65bn Mako buy



[Amy Brown](#)

Considering that Mako Surgical is a long way from establishing a place for robotics in orthopaedic surgery, yesterday's knockout bid from Stryker, pitched at a massive 86% premium, comes as a big surprise.

The third-biggest maker of artificial hips and knees has obviously decided that robotics' time is coming, hence the decision to pay \$1.65bn for an innovative technology that puts clear blue water between its offerings and those of its bigger competitors. Resource-wise, Stryker will certainly have more to throw behind Mako's products, but it will still have its work cut out to convince surgeons and hospitals of their benefits.

### Timed strike

If Stryker was ever going to buy Mako, now was a good time to do it. Shares in the Fort Lauderdale company are just starting to recover from a profit warning in 2012, when it was realised that building demand for the company's machines and implants was going to take longer than anticipated.

Hospitals have been much slower to buy its RIO robotics system than hoped, and once installed surgeons used it less than expected. The system allows for a less invasive method for knee resurfacing, and more recently Mako added a total hip arthroplasty procedure. The company has yet to make a profit, something analysts did not see happening until at least 2015.

Mako stock touched \$43 at its peak in 2012, but ended the year much diminished at \$12. Over the past few months the shares had started to climb as quarterly figures met forecasts, albeit much-reduced ones, perhaps prompting Stryker to jump now before sentiment recovered further.

### Bad feeling

Stryker shareholders have predictably responded less favourably to the news – the stock dipped 2.8% yesterday. As well as having to swallow what looks like a very generous premium, the acquisition will not add to earnings until three years after the deal closes.

Investor caution is understandable – before the takeover was announced Mako was one of the most heavily shorted stocks trading on Nasdaq, with almost a quarter of its shares sold short, suggesting that a lot of people were betting on more bad news from the robotics firm.

The robotic surgery sector has certainly been struggling to justify its existence recently. Earlier this year a study emerged that suggested Intuitive Surgical's da Vinci robot was no safer than standard laparoscopic surgery, but was substantially more expensive, only to be followed by an FDA investigation into an apparent jump in reports of complications ([FDA wonders whether robotic surgery is intuitive after all, March 4, 2013](#)).

Although the report and investigation did not specifically focus on Mako's surgical field or system, the events summed up pervading concerns around the sector: are robotic systems any better than surgeons from the patient's perspective, and can these extremely expensive machines bring about the cost savings than many hospitals are now demanding?

### Positioned for the future

Stryker obviously believes that these concerns can be allayed.

The company will certainly be better equipped to win the economic argument, although this will take time. The cost of each procedure carried out will drop if a robot is used more frequently once it has been bought by a hospital, and with more resources to throw behind sales and marketing the company must be hoping to improve utilisation rates, as well as simply placing more of the machines.

Persuading surgeons that these techniques are the future will also be a battle, but again arguably one that a bigger company can win. As a dominant player in hip and knee replacements Stryker is well positioned to deliver that message, and it now has an innovation to offer that clearly differentiates it from the likes of Zimmer and Johnson & Johnson's DePuy Orthopedics.

Kevin Lobo, chief executive of Stryker, described the Mako technology as having "considerable long-term potential in joint reconstruction" and long term is the key phrase here. But if robotic surgery really does have a place in orthopaedic surgery – and demand for new hips and knees is set to climb with an ageing population – Stryker has

positioned itself to benefit.

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