

## Buyers for Covidien's vascular tech will bargain hard



[Elizabeth Cairns](#)

It was inevitable that the merger of Medtronic and Covidien would require divestments to placate antitrust authorities, and the first indication of which technologies might be sold off was provided by Covidien on Friday. In an SEC filing the company said it was “probable” that part of its vascular therapies business would go.

The move might prompt concern over the communication between the companies: just two weeks earlier, Medtronic had issued a detailed description of how this same unit would be integrated into its own businesses. But assuming the companies are on the same page – and to be fair Covidien appears to want to sell only its R&D-stage devices rather than approved products – it is worth considering potential buyers, particularly for devices in the fast-growing neurovascular unit.

### Peripheral vs neuro

In a [Form 8-K dated October 24](#), Covidien said it would record a pretax charge of \$90-125m in its fourth quarter to account for impairment of non-amortisable in-process R&D associated with vascular therapies products.

Medtronic and Covidien are likely to agree to divest the assets to obtain clearance under US antitrust laws, according to the Dublin-based company. Previously, though, Medtronic had laid out its plan for absorbing the vascular therapies unit into its own portfolio.

Covidien’s peripheral vascular business is to be integrated into its cardiac and vascular group when the merger closes, it had said, whereas Covidien’s neurovascular business will join Medtronic’s restorative therapies group. Whether this plan still stands is not known, though if Covidien is to divest only its R&D projects, its approved products could still join Medtronic’s assets in the way the larger company outlined.

Of the two segments that make up the vascular therapies unit, Covidien might do better to offload peripheral vascular products. This franchise is forecast to grow at just 2.8%, according to *EvaluateMedTech*, more slowly than Covidien’s overall 4% and Medtronic’s 4%.

Covidien’s neurovascular products, which include devices for revascularising acute stroke patients, and endovascular neurosurgery products to treat brain aneurysms, are set to expand at a far healthier 7.5%. Though this segment is relatively small, with 2013 sales just over a third of the peripheral vascular segment, the paucity of treatment options for neurovascular disorders ought to mean that it grows quickly. Even projects still in R&D might be worth hanging on to.

### Interested parties

A glance at *EvaluateMedTech*’s profile of the interventional cardiology market based on FDA approvals gives an idea of which companies might be interested in Covidien’s peripheral vascular devices.

Boston Scientific leads in terms of PMA approvals, with a market share of 30%; Abbott Laboratories is in second place with 18%. Abbott Laboratories’ interventional cardiology techs are forecast to grow at an annual rate of just 0.47%, so it might wish to purchase Covidien’s peripheral devices. Alternatively, Cook Medical, which specialises in the peripheral vascular arena, has a 5.3% share of interventional cardiology and might be a better fit.

However, given that Covidien is having to divest these assets to escape accusations of being anticompetitive, it could be that companies already heavily involved in this area are not able to buy for the same reason.

The world of neurovascular devices is much smaller: Stryker, Terumo and MicroPort Scientific are the only other companies active here. And, swiftly though Covidien’s business is growing, the other three are growing faster: Terumo at 7.8%, Stryker at 8.2% and MicroPort at a very impressive 12.4%. It is therefore quite possible that these groups would not be interested in purchasing Covidien’s neurovascular technologies.

If Covidien is told by the FTC that it must sell off certain assets to get the megadeal with Medtronic done, you can bet that it will do so, even if this means that its rivals will get the products for a song. It is not worth

jeopardising medtech's largest ever deal to get an extra million or two for revascularisation catheters, and potential buyers will know it.

Covidien's vascular therapies unit										
		WW annual sales (\$m)								
	No of devices in segment	2013	2014	2015	2016	2017	2018	2019	2020	CAGR
Peripheral vascular	88	1,215	1,234	1,256	1,298	1,342	1,387	1,433	1,478	+2.8%
Neurovascular	27	437	455	488	530	577	626	676	726	+7.5%
Vascular therapies	115	1,652	1,689	1,745	1,828	1,919	2,014	2,109	2,204	+4.2%

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