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Mid-cap medtech shares rise in 2014 on deals and the possibility of more

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Echoing the movements in the shares of large-cap device makers, mid-cap companies are going up, up, up. All but five stocks in this group saw their share price increase last year, and the reason is simple: the promise of a takeover.

Among the smaller companies the pattern is repeated, with smaller sums but vastly greater percentage rises. The most successful small-cap stock ended the year up nearly fivefold, showing just what an extraordinary year 2014 was, particularly in contrast to 2013's lacklustre performance (see tables below).

It is true that the leader of the mid-caps, Edwards Lifesciences, has had great success with its heart valve technologies, but this is not the only – perhaps not even the main – factor in its stock's near-doubling. It has long been an obvious target for purchase, and even though it is now $6.4bn more expensive than it was a year ago it could still work nicely for the right buyer (*The next medtech megamerger?, November 5, 2014*).

Precisely the same is true for Sysmex, in second place with a 74% share price increase. The Japanese diagnostics group is forecast to see an annual growth rate of 10% out to 2020, *EvaluateMedTech*'s consensus data show, and it was one of the biggest mid-cap risers when *EP Vantage* last did this analysis six months ago (*Smaller companies swirl in the wake of medtech megamergers, July 10, 2014*).

The deal between Roche and Foundation Medicine on Monday might help increase appetite for acquisitions in the diagnostics space; if this does happen, Sysmex might not be a bad choice. It could well appeal to a buyer keen to gain access to developing markets: according to analysts from Morgan Stanley, Sysmex is working to increase its immunohistochemistry sales in China.

Mid cap ($2.5-30bn+) medtech companies: top risers and fallers in 2014					
	Share price (local currency)			**Market capitalisation ($bn)**	
Top 5 risers	**YE 2013**	**YE 2014**	**Change**	**YE 2014**	**12mth chg**
Edwards Lifesciences	$65.76	$127.38	94%	13.6	6.4
Sysmex	¥3,105	¥5,390	74%	10.4	3.8
Nihon Kohden	¥3,670	¥5,980	63%	2.5	0.8
Fisher & Paykel Healthcare	NZ$3.85	NZ$6.25	62%	2.7	1.0
DexCom	$35.41	$55.05	55%	4.2	1.7
Top 5 fallers					
Getinge	SKr220.00	SKr177.80	(19%)	5.5	(2.2)
Elekta	SKr98.35	SKr79.70	(19%)	4.1	(1.6)
William Demant	DKr527.00	DKr468.20	(11%)	4.5	(0.9)
Align Technology	$57.14	$55.91	(2%)	4.5	(0.1)
QIAGEN	$23.81	$23.46	(1%)	5.5	(0.1)

DexCom, fifth strongest riser, is in one of the spaces periodically hailed as the next big thing in medtech: the artificial pancreas. A manufacturer of blood glucose monitors, the firm is collaborating on the development of at least two artificial pancreas projects, which are designed to detect a diabetes patient's blood sugar and automatically – or even pre-emptively – administer insulin or glucagon as needed (*Therapeutic focus – Artificial pancreas projects will deliver over time, October 4, 2013*).

If these projects show signs of success one of the companies that makes insulin pumps – or one that wants to add to its range of sensors – would surely wish to step in.

European losses

Getinge, which makes surgical theatre equipment, followed a poor 2013 with a shocking 2014. In March its stock fell nearly 20% – its sharpest drop ever – after it issued its third profit warning in just over a year. Factory inspections by the FDA found that the company's manufacturing quality was not up to snuff, and Getinge had to spend heavily to improve quality controls. The third-quarter also missed expectations, and the stock fell again.

If Getinge's woes are largely of its own making, hearing aid maker William Demant has its competitor Sonova to thank for at least some of the 11% fall in its shares. In April Sonova signed a pact with US chain Costco that saw it heavily discount certain products, enabling it to gain a large share of Costco's hearing aid retail business.

Demant trimmed its full-year targets in November as a consequence of Sonova's move. But it had been in trouble before that, issuing an earnings growth forecast below consensus expectations in February.

Overall, the mid-cap fallers provide yet more suggestion that the European medtech market is not having as easy a time as the US and Far East. The three that fell furthest are Scandinavian, and Qiagen, while listed on the Nasdaq, is based in the Netherlands.

Quintupling

Small cap risers are led by OvaScience whose shares have risen almost five-fold. It is one of a number of companies seeking to exploit the enormous growth in demand for in vitro fertilisation, particularly in Asia. OvaScience's share price was pretty level throughout most of 2014, but have increased steadily since September. A 19% jump on December 18, after the company announced that all three of its technologies had advanced to their next stages of development, put the icing on the cake.

Its lead technology, called Augment, involves removing the mitochondria from a woman's egg precursor cells and injecting them into one of her egg cells, along with a sperm cell, during IVF. This is intended to permit women with poor-quality eggs to conceive with these rather than donated eggs.

The technology is not yet on sale in the US – indeed it has run into some regulatory difficulties there – but this does not matter as much as might be expected. IVF is, highly unusually, an area where the US is neither the largest nor the second-largest market.

Small cap ($250m-2.5bn) medtech companies: top risers and fallers in 2014					
	Share price (local currency)			Market capitalisation ($m)	
Top 5 risers	**YE 2013**	**H2 2014**	**Change**	**YE 2014**	**12mth chg**
OvaScience	$9.14	$44.22	384%	1,075	909
Nanobiotix	€5.27	€16.72	217%	298	221
Sirtex Medical	AUS$11.73	AUS$28.37	142%	1,408	782
Exact Sciences	$11.75	$27.44	134%	2,321	1,488
IBA Group	€7.80	€14.34	84%	516	222
Top 5 fallers					
ReproCELL	¥1,725.00	¥773.00	(55%)	369	(439)
Tandem Diabetes Care	$25.77	$12.70	(51%)	298	(252)
Seegene	KRW59,000	KRW32,550	(45%)	519	(413)
Carmat	€116.60	€65.40	(44%)	355	(320)
STAAR Surgical	$16.19	$9.11	(44%)	352	(252)

Nanobiotix and Sirtex Medical are, on the face of it at least, companies with similar technologies: tiny particles aimed at curing cancer via delivering or amplifying radiation.

The majority of Nanobiotics' 217% rise came early in the year, when it claimed in February that its lead product could be launched in Europe in 2016, a year earlier than expected. Sirtex's share ramp has been more gradual, as expectations grow for its ongoing trial of its liver cancer therapy in first-line use, data from which is expected in March.

Japanese group ReproCELL leads the small-cap fallers. Formed in 2003 to commercialise research into induced pluripotent stem cells, the group floated in June 2013 and closed its first day of trading on the Tokyo exchange at ¥18,300, up an extraordinary 427% from the offering price. The company split the stock 5:1 a month later.

In 2014, though, the share price has been in decline in the wake of a large warrant exercise; shareholders seem to have reacted badly to the suggested dilution, and ReproCELL's stock fell 35% over the subsequent week.

The pattern across medtech in 2014, though, is one of growth. The large-, mid- and small-cap cohorts have all seen overall rises in their share prices, with many more seeing increases than decreases. Furthermore, the ups, in terms of percentages, have been greater than the downs. This pattern is most stark among the small-cap companies, with the top rising share nearly quintupling but the top faller losing just over half its value.

2014 has been one long bull run in medtech. The question now is whether it can continue in the year to come.

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