Evaluate Vantage

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Boston opts to fill the gaps through licencing

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Beset by product liability lawsuits and exchange rate fluctuations, Boston Scientific has had a poor first quarter, posting a net loss of $1m. It remains optimistic for the year, though, insisting that its new products will drive it back into profit.

And it has another strategic move: it has been forging partnerships allowing it to distribute other groups' products. This kind of deal is unusual in the medtech sphere, but Boston has signed three in 2015 alone. Interestingly, the company says it intends to pursue the traditional means of adding products to its portfolio – via tuck-in acquisitions – too; but the success of its licencing deals will bear watching.

Boston is responsible for perhaps the best-known licensing deal in medtech: that covering Abbott's Xience V drug-eluting stent. This deal is a hangover from its less-than-successful acquisition of Guidant in 2006, and allowed Boston to sell Xience V under a different brand name, Promus, paying 40% of those sales to Abbott. Because Boston already had a DES franchise of its own, Taxus, it was able to capture the largest share of the market.

At its peak in 2010, Promus brought in $810m; a next-generation version, Promus Element, had sales just shy of $1bn last year. Boston's more recent agreements are unlikely to be this lucrative, but cumulatively they represent an intriguing strategic move.

Three deals

In February Boston signed a deal to distribute its competitor C.R. Bard's Lutonix 035 drug-coated balloon, a treatment for peripheral artery disease, in the US. While this market is a tenth the size of that for DESs it was worth Boston's while to strike this deal to avoid being outmanoeuvred by Medtronic.

Lutonix hit the US last October, but with Medtronic's competing device gaining approval three months later Bard needed greater sales firepower (*Bard's Lutonix makes early US DEBut, but Medtronic is not far behind, October 13, 2014*). Boston, meanwhile, got to fill a hole in its product offering, allowing it to provide a range of peripheral vascular devices similar to Medtronic's, analysts at Morgan Stanley wrote.

The second agreement of 2015 was a joint venture with the China-based firm Frankenman Medical Equipment Company and spanned multiple products. Boston's endoscopy business will ally with the surgical device maker to expand sales in the fast-growing Chinese market.

And on Monday Boston agreed to distribute deep brain stimulation surgery planning systems developed by the German company Brainlab. The technology ought to compliment Boston's Vercise DBS system, which is available in Europe and other countries for the treatment of Parkinson's disease, tremor and dystonia. The deal will allow Boston to sell its DBS systems via Brainlab's relationships with neurosurgeons and build scale in neurology.

M&A

Speaking on a conference call, CEO Michael Mahoney said that the deals were to allow Boston to grow faster than the market and achieve "double-digit EPS growth". These deals are not on the scale of the Xience V-Promus agreement and presumably they will help, but it seems unlikely that they will make a material difference.

Boston needs the plan to work: it had to lower its revenue guidance for the year to $7.2-7.4bn, down from $7.3-7.5bn.

Legal costs were partly responsible for a poor first quarter. Like its new partner C. R. Bard, Boston has been hit by lawsuits over faulty vaginal mesh products, and recently settled 2,790 vaginal mesh cases by paying a total of $119m.

Boston is also adding to its device range via M&A, with its purchase of Endo's American Medical Systems men's health division for $1.65bn being the most notable of the first quarter (*Endo exits medtech – almost, March 2, 2015*). Wisely it opted out of purchasing Endo's women's health business, which has run into similar trouble

over vaginal mesh implants.

If these distribution deals play out the way Boston intends, the rest of the big-cap medtech cohort might decide to increase their activity here too; medical device licensing could soon become less unusual.

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