

A new leader for the medtech industry thanks to mega M&A



[Elizabeth Cairns](#)

Medtronic has been the largest pure-play medtech company for many years, and this year it became the biggest overall. And it is to extend its dominance even further: [EvaluateMedTech's World Preview 2015](#) shows that it will occupy 7% of the worldwide medical device market in 2020, with sales of \$35bn (see tables below).

The Minnesota group has been buying smaller medtech companies at a furious pace. The former industry leader, Johnson & Johnson, has been doing the opposite, divesting units to sharpen its focus. As the report shows, there are many trends at play in the sector, and there are three in particular that are key to understanding its future.

Global medtech sales by company						
Company	Sales (\$bn)				Market share	
	2014	2020	CAGR	Change	2014	2020
Medtronic	20.3	34.9	9%	12.9	5%	7%
Johnson & Johnson	27.5	29.7	1%	-3.1	7%	6%
Siemens	18.2	16.1	-2%	-7.9	5%	3%
Roche	11.8	14.2	3%	-1.0	3%	3%
Becton Dickinson	7.3	13.6	11%	4.2	2%	3%

The first trend apparent in the medtech sector is of course consolidation. Medtronic's new place at the top of the rankings is due to the completion of the largest acquisition in the sector's history - that of Covidien for nearly \$50bn - and it has arranged 11 other acquisitions since the Covidien deal was announced.

And Medtronic is not the only company to have leapfrogged its fellows thanks to an acquisition. Becton Dickinson will in 2020 be the fifth-largest medtech company in the world thanks to its \$12.2bn purchase of CareFusion a year ago ([BD to buy CareFusion in third biggest deal this year](#), October 6, 2014). Becton has jumped an impressive seven places to make the top five.

Top 5 medtech M&A deals closed in 2015			
Target	Acquirer	Completion date	Value (\$bn)
Covidien	Medtronic	26 January	49.9
Biomet	Zimmer Biomet	24 June	14.0
CareFusion	Becton Dickinson	17 March	12.2
Audiology Solutions business of Siemens	EQT VI (private equity)	15 January	2.7
Siemens Health Services	Cerner	2 February	1.3

In 2014 the total value of mergers closed was \$42bn, up from \$29bn the year before. But 2015 has been the real attention-grabber, with total medtech M&A deal values already at \$84bn at the half-year point, a 166% increase over the first half of 2014. This is larger than any full year ever, and total for this year will almost certainly exceed \$100bn.

Specialisation

While the sector will not see a deal the size of Medtronic-Covidien again for many years, consolidation is still very apparent. The second trend at work, seemingly paradoxically, is specialisation.

Companies such as J&J, Siemens and Philips are hiving off non-core units to concentrate on areas of high growth or to focus on a particular area. In fact, J&J will shrink even more in time; the current forecasts do not take account of its divestment of its Cordis interventional cardiology business as this \$2bn transaction has only just closed.

And in August, American Medical Systems, the medtech arm of Endo Pharmaceuticals, sold its men's health business. Boston Scientific acquired the unit for \$1.7bn, so this deal neatly illustrates both strategic moves at once: one company shrinks so it can play to its strengths, and another bulks up to compete better with what it considers its peers, many of which offer a diverse product portfolio.

Liberalisation

The third main story of the past year, which seems highly likely to continue, is the increased willingness of the US FDA to grant approvals and clearances to innovative medical products. *EvaluateMedTech's* report shows that, while the rate of supplementary approvals and 510(k) clearances have both ticked up at a rate of 5% from 2013, the agency has granted rather more first-time approvals.

First-time premarket approvals (PMAs) and humanitarian device exemptions (HDEs) are granted to high-risk devices that are unlike anything that already exists – in other words, they are truly new technologies. In 2014 the FDA awarded 29 PMAs and four HDEs, an increase of 43% on the combined number in 2013.

FDA approval count, 2013-14			
Year	2013	2014	Change
1st Time PMA/HDE/PDP	23	33	43%
Supplementary PMA/PDP	2,328	2,455	5%
510(k)	3,084	3,244	5%
<i>Total</i>	<i>5,435</i>	<i>5,732</i>	<i>5%</i>

This same rate of increase has carried on since. In the first eight months of this year the FDA has granted 30 PMAs and three HDEs – at 33 this is the same total number as was granted in all of 2014.

This is a good sign for the industry, rewarding efforts to produce game-changing devices that address unmet needs. The sector is forecast to have total worldwide sales of \$478bn in 2020, and the advent of new devices will be a crucial part of achieving this goal.

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