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Big-cap medtech shares stutter

Madeleine Armstrong

It looks like the boom times are over for medtech, with 2015 seeing share price losses for several big-cap companies, ending two years of growth across the board.

This could have been a knock-on effect from the biotech wobble. Some had touted medtech as a safe haven for investors, albeit one with potentially lower rewards. But this did not seem to bear out in practice, according to the share indices: while the Nasdaq biotechnology index was up 11% across 2015, the best-performing medtech index could only manage growth of 7% (see tables below).

And in Europe the picture was even grimmer, with the Thomson Reuters Europe Healthcare index flat year on year – echoing 2014, when Europe also lagged the US. But 2014 saw more impressive 22-23% growth in the US indices. The signs are not looking good for medtech.

Stock index	% change in 2015
Thomson Reuters Europe Healthcare (EU)	0%
Dow Jones US Medical Equipment Index	7%
S&P Composite 1500 HealthCare Equipment & Supplies	6%

In spite of this gloom there was success for several big-cap players. Top of the pile was Boston Scientific, which was also the biggest riser in the first half of 2015.

After a torrid few years Boston finally seems to be turning things around, with several key product approvals – including its Watchman left atrial appendage closure device, Emblem subcutaneous implantable cardioverter defibrillator (S-ICD) and Synergy stent – leaving analysts bullish (*Interview – Boston's long road to recovery, September 3, 2015*).

Best of the rest

Performing well again was the transcatheter aortic valve market leader, Edwards Lifesciences, once a stock split is taken into account. The company was boosted in June by the FDA approval of its next-generation valve Sapien 3, keeping it a step ahead of its arch-rival, Medtronic (*Edwards tightens transcatheter valve stranglehold, June 18, 2015*).

Some analysts believe that the TAVI market could end up being even bigger than current consensus estimates, particularly if treatment is expanded to include lower-risk patients, leaving room for further growth for Edwards. The group could also benefit from its moves into the transcatheter mitral and tricuspid valve markets – but it will probably take several years to see if these pay off.

Becton Dickinson shook off an autumn slump to end the year up 11%, helped by its November forecast of better than expected cost savings from its CareFusion acquisition. However, 2016 might not be so rosy: BD's presence in emerging markets, bigger than many of its peers, could set it up for a fall especially if China's volatility continues.

Large cap ($15bn+) medtech companies: top risers and fallers in 2015					
	Share price (local currency)			Market capitalisation ($bn)	
	YE 2014	YE 2015	Change	YE 2015	12mth change
Top five risers					
Boston Scientific	$13.25	$18.44	39%	24.8	7.23
Essilor International	€92.68	€115.05	24%	27.9	2.64
Edwards Lifesciences*	$63.69	$78.98	24%	17.04	3.41
HOYA	¥4,105.00	¥4,981.00	21%	17.3	1.10
Becton Dickinson	$139.16	$154.09	11%	32.7	5.59
Top five fallers					
Zimmer Biomet**	$113.42	$102.59	(10%)	20.91	1.70
St. Jude Medical	$65.03	$61.77	(5%)	17.46	(1.13)
Baxter International***	$39.82	$38.15	(4%)	20.87	(18.85)
Smith & Nephew	$36.74	$35.60	(3%)	15.95	(0.91)
Stryker	$94.33	$92.94	(1%)	34.95	(0.74)
*Notes: *corrected for 2:1 stock split; **name change from Zimmer post Biomet acquisition ***corrected for spinout of Baxalta*					

The biggest loser in 2015 was Zimmer Biomet, reflecting the tough pricing enviroment the group has faced and continued sluggish sales.

Baxter also declined follwing its spin out of its Baxalta business. Ex-chief executive of Covidien, José Almeida, is now at the helm, and there are hopes that Baxter could be more aggressive when it comes to M&A.

Ortho woe

Joining Zimmer, two more of the top five fallers were orthopaedics groups, perhaps reflecting the lower growth prospects in this mature sector. Consolidation continues apace as ortho companies look to deals to bolster their results – the latest was NuVasive's acquisition of Ellipse (*NuVasive's $380m Magec trick, January 7, 2016*).

It was the lack of a deal that contributed to Smith & Nephew's 3% overall fall after a rollercoaster year. Stryker had been touted as ready to buy the UK group, but as the acquisition failed to materialise S&N's stock sank.

St. Jude Medical was also caught up in the M&A rumour mill last year, with Abbott the supposed acquirer – speculation it quickly denied. This hurt St. Jude's stock, as did a disappointing third quarter, particularly for its cardiac rhythm management division. These issues will continue to drag on the company's results, analysts believe, setting it up for a difficult 2016.

Compared with the previous couple of years, 2015 was tough for medtech. It seems likely that, for some companies at least, things will get tougher still.

* *This story has been republished to reflect the adjusted historic share price for Baxter International following the spin out of Baxalta*

To contact the writers of this story email Elizabeth Cairns or Madeleine Armstrong in London atnews@epvantage.com or follow @LizEPVantage or@medtech_ma on Twitter

Evaluate Americas
+1-617-573-9450

Evaluate APAC
+81-(0)80-1164-4754