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Stryker’s Synergetics deal is smaller but no less sage

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The acquisition of Synergetics USA’s neuro portfolio from Valeant is a minuscule deal compared with the $2.8bn purchase of Sage Products last week, but it nevertheless gives an interesting insight into Stryker’s strategy.

It shows the group reiterating its new focus on the hospital sector, but also thumbing its nose at a competitor, Johnson & Johnson, which has a distribution deal with Synergetics for a couple of electrosurgery devices. It is not clear whether this agreement will be wound up, but even if it continues it will involve J&J paying Stryker.

Valeant bought Synergetics USA in October for $192m, acquiring a company active in two sectors. Its ophthalmic surgery business consisted of devices and disposables for vitrectomy, sold directly to users at hospitals and surgeons’ offices, and accounted for about 57% of Synergetics’ revenue.

Malis aforethought

The rest came from its neurosurgery unit, which has manufacturing and distribution deals with J&J’s Codman & Shurtleff subsidiary, part of DePuy Synthes, as well as with Stryker itself. The Codman deal covers the Spetzler Malis disposable forceps and Malis bipolar electrosurgical generator, used to coagulate tissue during electrosurgery.

Stryker distributes Synergetics’ ablation generators and ultrasonic aspirator disposables, which are used to cut tissue and bone. Buying its supplier has obvious long-term advantages for Stryker.

Valeant’s devices are almost entirely ophthalmic, led by its Bausch + Lomb division, so a disposal of Synergetics’ neuro products was always on the cards. These products had sales of $31m last year, and will slot into Stryker’s neurotechnology and spine business which did $1.8bn of business in 2015 (Stryker flips from ortho to hospital equipment with $2.8bn Sage purchase, February 2, 2016). This was 5% up on the previous year, or 10% on a constant currency basis.

Getting one up on J&J is not the point of Stryker’s move, not least because it would not make much difference. Despite J&J’s insistence that it is pouring its efforts into internal device R&D and buying exciting new technologies from outside, it is cutting its medtech division markedly (J&J device refocus continues with 3,000 job cuts, January 20, 2016). The loss of the Malis products will not weigh heavily.

Shifting focus

Instead this transaction is aimed at streamlining, cutting costs – Stryker says the deal will be neutral to its 2016 earnings, excluding acquisition charges, and accretive after that – and boosting its reach in the ever-more-important hospital sector.

Just as J&J is changing its focus by cutting medtech, Stryker is shifting away from its traditional stronghold of orthopaedics – albeit by boosting its other segments, rather than making cuts. Even the most venerable medtech companies are coming to realise that commoditised areas like orthopaedics and, increasingly, diagnostic imaging and cardiovascular are no longer the smart place to be.

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