

Stryker to enter top five with \$1.3bn Physio-Control buy



[Elizabeth Cairns](#)

If Medtronic was the most prolific acquirer of 2015 Stryker appears to be seeking the 2016 title. Its third takeover in two weeks – and the second to be worth over \$1bn – is of Physio-Control International, once again moving the company away from its orthopaedic heartland into the hospital equipment sector.

Physio-Control, purchased for \$1.28bn from Bain Capital, makes equipment including defibrillators and heart monitors for use by paramedics and the military, and in hospitals. The company's sales grew 6% at constant currency to \$503m last year. And, while there are questions over whether this pace can be sustained, the addition of Physio-Control's revenue ought to permit Stryker to leapfrog Becton Dickinson to become the world's fifth-largest medtech company.

If Stryker can make a success of this acquisition it will have done better than at least two other companies. Physio-Control has changed hands repeatedly since its inception in 1955, being first acquired in 1980 by Lilly, which sold it to Bain Capital 14 years later. It was then bought by Medtronic in 1998 for \$538m, but this company could not make it pay and sold it back to Bain at a loss in 2011.

Saturated

Stryker does have a track record of successfully integrating business even when they have struggled. Mako Surgical, for instance, had been buffeted by lawsuits and product recalls before Stryker bought it in 2013, and that acquisition is generally regarded by analysts as a huge success.

Another example is the acquisition of Boston Scientific's neurovascular unit in 2011. Analysts at Leerink wrote that the neuro unit was an underperforming business under Boston that Stryker turned around, "and most recently the business helped the neuro franchise deliver mid-teens growth in 2015".

Stryker says one of Physio-Control's advantages is that disposables and accessories – batteries, cables, sensors etc – provide about 40% of its sales; these products provide recurring revenues rather than the one-off sales of capital equipment that is Stryker's traditional focus.

The group is partly relying on having a captive audience to sustain growth. Stryker says Physio-Control's installed base includes several hundred thousand life support systems and half a million external defibrillators, meaning that "the opportunities for upgrades and market expansion are extensive".

But external defibrillators and CPR-assist devices are not the kinds of products that see a great deal of disruptive innovation. The market is mature to the point of saturation, and Physio-Control must compete with much larger companies, including Philips. Stryker will do well to sustain a 6% growth rate in a market growing by 3% a year at most.

Growing fast

Physio-Control will be integrated into Stryker's EMS (Emergency Medical Services) unit, part of its MedSurg division – the same one that will also absorb Sage Products, bought by Stryker at the start of this month ([Stryker flips from ortho to hospital equipment with \\$2.8bn Sage purchase, February 2, 2016](#)). Usefully, Stryker's EMS activity means that it already has sales personnel geared towards first responders, who would be potential customers for Physio-Control's devices.

The combined 2015 sales of Physio-Control, Sage and the neuro portfolio of Synergetics USA, which Stryker bought last week, were nearly \$1bn. Adding these to Stryker's own 2015 revenues suggests that the group will be able to move up the ranking of company by medical device sales, pushing Becton Dickinson into sixth place and placing it almost within reach of Roche.

Top five companies by medtech sales

Company	Total medtech sales (\$m)		
	2013	2014	2015
Medtronic	17.0	20.3	28.8
Johnson & Johnson	28.5	27.5	25.1
Siemens	17.9	18.2	14.8
Roche	11.3	11.8	11.2
<i>Stryker plus Sage, Synergetics USA and Physio-Control</i>	-	-	10.9
Becton Dickinson	7.0	7.3	9.2
Stryker	9.0	9.7	9.9
Total market	365.4	374.7	367.0

Stryker ended 2015 with \$4.1bn in cash, and intends to fund its spending spree with \$3.5-4.0bn of debt. Optimists have noted that the much-rumoured merger with Smith & Nephew could just about still be on the table. But Stryker seems to be determined to shift away from orthopaedics, and in any case it might be well advised to concentrate on making its recent purchases work.

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