

## Smaller medtechs in charge of their own destiny



[Elizabeth Cairns](#)

There have been few share price-moving technological or regulatory breakthroughs or disasters among the mid-cap medtech companies. Instead the story here is one of investors rewarding good and punishing poor financial performance.

Among the small cap companies there is more excitement, with two of the risers up on deals with two of the largest medtech giants, and the fallers suffering from personnel changes. The first half of 2016 seems to have been largely free of stock market ructions, allowing companies' underlying strategies to determine whether they sink or swim.

Share price changes are muted compared with previous occasions on which *EP Vantage* has performed this analysis. The leader of the mid-caps is Teleflex with a jump of just 35%.

Teleflex is unusually diverse for a mid-cap. It gains around a third of its sales from respiratory technologies and another third from drug delivery devices; around 20% of its sales come from surgical devices, 10% from urology and 5% from cardiovascular products.

It sells its products, which include tubes and masks for ventilation and the administration of anaesthesia as well as cardiac pacing catheters and kidney stone extractors, to hospitals. Demand for these devices will, naturally, increase as the population ages. The company doubtless appeals to investors as a safe, reliable if not exhilarating place to stash their money.

### Focus

Cochlear, the second highest midcap riser, is as narrowly focused as Teleflex is diverse. The Australian group is the leading producer of cochlear implants, which are similar to hearing aids, but use very different technology.

Cochlear implants consist of an external microphone and speech processor which convert sound into an electrical signal and send it to a surgically implanted receiver with electrodes inserted into the cochlea in the inner ear. The electrodes stimulate the auditory nerve sending a signal to the brain, where it is perceived as sound.

The company's biggest one-day share boost came in February when it reported with revenue growth of 16% for the second half of 2015 on constant currency. That said, its shares have climbed fairly steadily across the year so far. This could continue: more than 360 million people worldwide have disabling hearing loss, and global market penetration for implantable hearing devices is less than 5%. Cochlear implants are more expensive than traditional hearing aids, though, so Cochlear will have to get its pricing and reimbursement right.

<b>Mid cap (\$2.5-15bn) medtech companies: top risers and fallers in H1 2016</b>				
		<b>Market capitalisation (\$bn)</b>		
<b>Top 5 risers</b>	<b>Share price change</b>	<b>YE 2015</b>	<b>H1 2016</b>	<b>6M change</b>
Teleflex (\$)	35%	5.47	7.73	2.26
Cochlear (AUS\$)	27%	3.93	5.32	1.38
Masimo (\$)	27%	2.09	2.57	0.48
The Cooper Companies (\$)	26%	6.48	8.31	1.83
Straumann (SFr)	26%	4.95	6.32	1.37
<b>Top 5 fallers</b>				
Hoya (¥)	(27%)	17.27	13.42	(3.85)
Getinge (SKr)	(22%)	5.94	4.73	(1.20)
Qiagen (\$)	(21%)	6.44	5.08	(1.35)
Olympus (¥)	(21%)	13.70	11.87	(1.83)
Hologic (\$)	(14%)	11.30	9.65	(1.65)

Mazor Robotics, leader of the small cap risers, can point to its deal with Medtronic as the main reason for its 77% share boost. The world's largest device maker licensed Mazor's spinal surgery guidance system in mid-May, at the same time spending about \$12m to buy 4% of the Caesarea, Israel-based company's outstanding shares. Medtronic also snared the opportunity to buy an additional 6% and then a further 5%, in future allotments that Medtronic can cap at \$20m apiece.

The companies are to work together to promote Mazor's system, which is used to help surgeons plan and execute spinal operations, and will develop new products as well. Medtronic will buy 15 of Mazor's systems by the end of this year, and if the agreement meets expectations by the end of 2017, Medtronic will exclusively sell and distribute Mazor's spinal products.

<b>Small cap (\$250m-2.5bn) medtech companies: top risers and fallers in H1 2016</b>				
		<b>Market capitalisation (\$m)</b>		
<b>Top 5 risers</b>	<b>Share price change</b>	<b>YE 2015</b>	<b>H1 2016</b>	<b>6M change</b>
Mazor Robotics (\$)	77%	215	401	186
Exactech (\$)	47%	256	377	121
LDR (\$)	47%	729	1,082	353
Exact Sciences (\$)	33%	889	1,198	309
Ambu (DKr)	32%	1,307	1,746	439
<b>Top 5 fallers</b>				
ConforMIS (\$)	(59%)	704	293	(411)
Intersect ENT (\$)	(43%)	630	366	(264)
AtriCure (\$)	(37%)	723	468	(255)
Sirtex Medical (AUS\$)	(36%)	1,650	1,122	(528)
Accelerate Diagnostics (\$)	(33%)	1,100	737	(363)

The growth in shares of orthopaedic implant group LDR can also be attributed to a deal - this time a takeover.

Zimmer Biomet will become the third largest orthopaedic company by sales after it absorbed LDR, which it paid \$1bn to acquire last month ([Zimmer Biomet shows some backbone with \\$1bn LDR buy, June 8, 2016](#)).

Mazor and LDR are exceptions: there were no other transformative deals or other significant events among the mid- or small-cap companies that saw meaningful share price changes. Most of the groups that have had a good 2016 so far have beaten forecast sales or profits or both; most of those that have slipped posted disappointing financials and/or lowered their guidance for the months ahead.

With biotech stocks in trouble, investors might want to switch their portfolios to a safer area such as medtech. If that is the case, they will doubtless be relieved by the sheer lack of surprises among the smaller device makers.

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