Evaluate Vantage

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Political ructions, poor deal-making and scandal – a bad year for big-cap medtechs

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The year just passed saw more large-cap medical device companies fall further than any period since *EP Vantage* has been tracking their share price performance. The fallers are usually down by single-digit percentages, and there are rarely five. 2016 brings a full complement and the worst performer, Coloplast, is down an unprecedented 18%.

The risers have not performed as well as previously either. 2016 was a disappointment for many in the medtech world, despite the pausing of the US medical device tax and the promise of its total repeal in the coming year (see table).

The general performance of medtech companies, as indicated by indices of device makers, has been less than stellar. The US has declined markedly from the half-year point (*Sun comes out for big-cap medtechs as investors seek refuge from market squalls, July 5, 2016*).

But the situation in Europe is worse, with a seven-point acceleration in the rate at which EU-listed medtech stocks are declining. How much of a role the UK's imminent withdrawal from the EU has had on this is open to debate; the index did fall sharply the day after the referendum but later recovered.

Stock index	% change in 2016
Thomson Reuters Europe Healthcare (EU)	(12%)
Dow Jones U.S. Medical Equipment Index	5%
S&P Composite 1500 HealthCare Equipment & Supplies	7%

The striking thing about the big cap movers is how much was decided in the first half of the year. The table of the top risers and fallers bears a strong resemblance to that seen at the half year, with four of the five risers reappearing now, and all three of the first-half fallers present again.

Le roi est mort

St. Jude Medical leads the pack, up 30% across 2016 thanks to the premium agreed by Abbott Laboratories for its $25bn acquisition of the cardiovascular specialist. Today is St. Jude's last day of existence: the deal is to close at any moment. At least it went out on a high – not bad for a company named after the patron saint of lost causes.

Stryker, in second position, has also been buoyed by deals, though as the buyer rather than the target. It agreed no fewer than eight acquisitions last year, with the $2.8bn Sage Products purchase and the $1.3bn Physio-Control deal being the largest. The company's share price has climbed steadily for years now. Perhaps, in stormy times for biotech, Stryker has positioned itself as an alternative – a slow-and-steady safe haven for investors' cash.

This theory might be borne out by Phillips's rise. The Dutch group sold off its last lighting businesses last year and when the latest deal – the sale of the Lumileds unit to private equity for $1.5bn – closes, Philips will be almost pure medtech. Analysts expect Philips to use the proceeds to buy in new technologies to beef up its medtech offering.

Had it not been for its poor third quarter results, Edwards Lifesciences would be the biggest riser. On October 25 its shares were up 44% from the start of the year, a rally that was halted the next day by news that sales of its valve products had missed analysts' expectations.

Still, Edwards owes its place in the risers to its technologies rather than any bizdev activity – its one deal this year, the purchase of Valtech Cardio for $690m, was a technology-focused tuck-in rather than any kind of scale play (*Edwards gets everything but the valve, November 29, 2016*).

Large cap ($10bn+) medtech companies: top risers and fallers in 2016				
		Market capitalisation ($bn)		
	Share price chg	YE 2015	YE 2016	12-mth chg
Top 5 risers				
St. Jude Medical ($)	30%	17.46	22.91	5.45
Stryker ($)	29%	34.95	44.86	9.92
Philips (€)	23%	24.63	29.69	5.06
Edwards Lifesciences ($)	19%	17.04	20.03	3.00
C. R. Bard ($)	19%	14.00	16.52	2.52
Top 5 fallers				
Coloplast (DKr)	(18%)	17.32	14.26	(3.06)
Danaher ($)	(16%)	63.65	53.84	(9.81)
Olympus (¥)	(16%)	13.70	13.32	(0.38)
Smith & Nephew ($)	(16%)	15.95	13.17	(2.78)
Abbott Laboratories ($)	(14%)	66.99	56.55	(10.44)

There were only three big-cap companies whose shares had fallen the last time *EP Vantage* performed this analysis, back in July. All three – Abbott, Coloplast and Smith & Nephew – occur again, though in different positions.

A new entrant is Danaher, which saw a 20% decline in its shares after completing the spinout of its Test & Measurement, Industrial Technologies and Retail/Commercial Petroleum segments into a new company, Fortive. Where Philips's shareholders rewarded its movement towards a purer medtech focus, Danaher's seem to have been unimpressed.

Olympus has had its share of woes in the past year, notably the fallout from the duodenoscope scandal that broke in 2015. Olympus had been selling a scope called TJF-Q180V despite this never having been approved by the US FDA. Used to perform a procedure known as endoscopic retrograde cholangiopancreatography, the device was linked with a spate of drug-resistant bacterial infections in the US owing to the fact that it is difficult to clean.

Here, however, the currency effect makes itself felt: despite Olympus's shares falling 16% on the Tokyo exchange its market cap only dropped 3% in dollar terms.

And Abbott has had a tumultuous year with two billion-dollar acquisitions under way – one good, one bad. The St. Jude deal closes today but the Alere acquisition, which looks more troublesome with every passing day, is doing the Illinois group no favours. Perhaps if Abbott manages to back out of this deal its shares will rise again. The sector as a whole might find it harder to recover.

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