

A quiet year for mid-size medtech



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If “may you live in interesting times” is a curse, most medical technology companies enjoyed blessed existences in 2016. The story among the mid-size and small groups this year has generally been one of gently following where the market leads, their stock rising after a good quarter or drifting down after a bad one.

There were some breaks in the tranquillity, with diabetes group Dexcom’s 27% fall partly attributable to competition and surgical robotics company Mazor leaping an impressive 116% on a potentially very lucrative deal with Medtronic. But the year has not been an exhilarating one for these groups overall. Perhaps 2017 will bring greater changes.

Mid-cap leader Masimo, a specialist in blood monitoring technology, climbed steadily throughout 2016, ending the year with its shares up 62%. While there is no sudden jump in the shares the group pulled off an impressive move in November, parlaying a legal win against Philips into a partnership with it.

Back in 2014 Philips was ordered to pay \$467m in damages to Masimo for infringing two patents covering its pulse oximetry monitoring technology. Two years later the companies buried the hatchet by forming a partnership whereby both parties will co-market Masimo sensors in conjunction with Philips’ patient-monitoring equipment, and Philips will integrate Masimo’s tech into its own patient monitors. Philips paid Masimo \$300m instead of the full award.

This is a win for both companies: analysts suggest that despite the lower cash payment Masimo may have saved overall because it has saved itself the costs of further wrangling.

Mid-cap (\$2.5-10bn) medtech companies: top risers and fallers in 2016				
		Market capitalisation (\$bn)		
	Share price chg	YE 2015	YE 2016	12mth chg
Top 5 risers				
Masimo (\$)	62%	2.09	3.35	1.26
Align Technology (\$)	46%	5.23	7.66	2.43
Cantel Medical (\$)	38%	2.33	3.22	0.89
Bio-Rad Laboratories (\$)	31%	4.06	5.39	1.33
The Cooper Companies (\$)	30%	6.48	8.53	2.06
Top 5 fallers				
Getinge (SKr)	(34%)	5.94	3.68	(2.25)
Dexcom (\$)	(27%)	6.66	5.05	(1.61)
Asahi Intecc (¥)	(15%)	2.99	2.93	(0.05)
Hologic (\$)	(12%)	11.30	9.82	(1.48)
Steris (\$)	(11%)	6.44	5.74	(0.69)

Cantel Medical likewise did not see any binary events, but might well have benefited from the same event that hurt Olympus’s share price ([Political ructions, poor deal-making and scandal – a bad year for big-cap medtechs, January 4, 2017](#)). Cantel offers endoscope sterilisation services, and while the company as a whole boasts an unshabby forecast growth rate of 11%, according to *EvaluateMedTech’s* consensus data, its

Endoscope Reprocessing segment it set to grow at 15%.

Hospitals and surgeries are buying its sterilisation equipment and services as they seek to prevent another outbreak of drug-resistant bacterial infections. The three months ended October 31 was a record quarter for Cantel's endoscopy segment, which had overall growth of 31%.

Blood glucose sensor developer Dexcom's shares fluctuated throughout the year on the Nasdaq, but the worst blow came in early November with a greater third-quarter loss and guidance lower than expectations. It is also losing ground to a Medtronic product that is not even launched yet. Patients are delaying their purchasing decisions until Medtronic's MiniMed 670G, the closest thing yet to an artificial pancreas, goes on sale in the coming spring.

Tandem Diabetes suffered so badly from this spectral competition – its shares collapsing 82% – that it crashed out of the small-cap category. Otherwise it would lead the fallers in the table below.

Financials

Mazor Robotics leads the small cap risers thanks to Medtronic licensing its spinal surgery guidance system in mid-May, and spending about \$12m to buy 4% of the Caesarea, Israel-based company's outstanding shares.

At the other end of the scale, Sirtex Medical was already down notably at the half-year point, but its real fall came in December when it reported sales of its radioactive microbeads, approved to treat liver tumours in patients with metastatic colorectal cancer, would grow just 4% to 6% in the first half of the coming financial year, compared with the 16% growth it saw in the same period last year. It also lowered its Ebitda guidance for the coming year, saying that it would be in the range of \$65-74m. The worst-case would mean a decline of 12% year-on-year.

Small cap (\$250m-2.5bn) medtech companies: top risers and fallers in 2016				
	Share price chg	Market capitalisation (\$m)		
		YE 2015	YE 2016	12mth chg
Top 5 risers				
Mazor Robotics (\$)	116%	215	522	307
Axogen (\$)	80%	149	296	147
Cryolife (\$)	78%	307	629	322
Inogen (\$)	68%	788	1,361	573
Vascular Solutions (\$)	63%	596	986	390
Top 5 fallers				
Sirtex Medical (AUS\$)	(65%)	1,650	622	(1,028)
Myriad Genetics (\$)	(61%)	3,011	1,140	(1,871)
Conformis (\$)	(53%)	704	347	(357)
Novadaq Technologies (C\$)	(47%)	763	411	(352)
Intersect ENT (\$)	(46%)	630	346	(284)

It is striking how few of the mid- and small-cap medtech companies have risen or fallen on data readouts or corporate activity. Mostly the largest share movements come as a result of their financial reporting, as well as being a reflection of the generally muted markets. With uncertainty over the political changes coming in 2017 on both sides of the Atlantic, perhaps a more turbulent year is on the way.

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