Special Report

Europe and North America MedTech Strengthens in 1H23

September 2023

Contents

1H23 Print: Most firms are topping consensus projections and raising guidance

	MedTech Companies	Result versus BBG Consensus		FY23 Guidance	High Level Thoughts
		Revenue	EBITDA		
Europe	PHILIPS	↑	↑	↑	Good order book-to-sales conversion, particularly in ultrasound and image-guided therapy, despite softness in the sleep and respiratory care unit. Cost savings on cut in 6.6k roles YTD. Confident in the execution plan for the diagnosis and treatment unit on the strong order book.
Europe	FRESENIUS MEDICAL CARE	↑	↑	↑	Results rebounded well on improvement in the dialysis business and labor trends. Portfolio optimized on targeted clinic closures. On track to attain planned cost savings.
Europe	FRESENIUS	↑	↑	→	An increase in patient count and staff retention lifted Helios' segment. Kabi unit expanded its critical care portfolio. Some offset from Vamed unit on ongoing restructuring. Deconsolidation of Fresenius Medical care unit on track. Labor challenges somewhat dissipated.
Europe	EssilorLuxottica	↑	↓	→	The price mix and launch of the luxury collection partly offset the softness in sunglass demand. Margin dilution on higher insurance claim cost. Expansion into the hearing aid market provides comfort in 2H23.
North America	stryker	↑	↑	↑	Robust demand for the company's artificial heart valves amid a pickup in elective procedures. Reduced supply chain restrictions. Launch of 1788 endoscopic cameras and strong order book for capital equipment assures uplift in FY23 outlook.
North America	ZIMMER BIOMET	↑	↑	↑	The popularity of the recent launch of cementless knee procedures led to momentum in orthopedic treatment. But still catching up on staffing issues. Introducing new products to expand into patient-focused use cases.
North America	Abbott	↑	↓	↑	Focused on boosting core - non-COVID-19 related diversified business model and launching new products to more than offset the diminishing sale of COVID-19 testing kit.
North America	DANAHER	↑	↑	↓	Moderation in COVID-19-related product sales. Weakening in bioprocessing unit. A sharp fall in the funding environment led to project delays and an increase in order cancellations.
North America	Baxter	↓	↓	↑	Solid demand for medically essential products. Capital equipment on lower rental revenues dipped. Proceeds from sales of the Biopharma segment in 3Q23 are to be used for debt reduction.
North America	ThermoFisher SCIENTIFIC	↓	↓	↓	Shrink in COVID-19 testing volume. Softened demand for biopharma services, including tools and compounds, to make therapeutics and vaccines. Guidance cut on funding crunch.

What moved 1H23 numbers: Ease in COVID-19 overhang

	Europe				North America					
	EUR	EUR	EUR	EUR	USD	USD	USD	USD	USD	USD
Financials (in millions)	EssilorLuxottica	FRESENIUS	FRESENIUS MEDICAL CARE	PHILIPS	Baxter	DANAHER	stryker	ThermoFisher SCIENTIFIC	ZIMMER BIOMET	Abbott
Revenue	**12,851**	**20,584**	**9,529**	**8,636**	**7,220**	**14,324**	**9,774**	**21,397**	**3,701**	**19,725**
% growth y/y	*7.1%*	*4.3%*	*2.4%*	*6.7%*	*1.0%*	*-7.2%*	*11.5%*	*-6.1%*	*7.4%*	*-14.8%*
Adj. EBITDA	**3,295**	**3,234**	**1,627**	**1,256**	**1,556**	**4,455**	**2,738**	**5,223**	**1,504**	**5,828**
% growth y/y	*4.8%*	*-3.3%*	*7.3%*	*32.5%*	*-15.3%*	*-19.7%*	*9.9%*	*-20.1%*	*7.1%*	*-29.4%*
Adj. EBITDA margin	*25.6%*	*15.7%*	*17.1%*	*14.5%*	*21.6%*	*31.1%*	*28.0%*	*24.4%*	*40.6%*	*29.5%*
bps growth y/y	*-57*	*-123*	*77*	*283*	*-415*	*-482*	*-41*	*-429*	*-11*	*-609*
Funds flow from operations	2,724	2,037	1,317	485	780	3,599	1,511	4,520	981	2,976
Cash flow from operations (CFO)	**2,176**	**1,361**	**1,150**	**337**	**830**	**3,873**	**1,133**	**2,269**	**656**	**2,346**
Capex	-751	-747	-298	-213	-328	-616	-282	-742	-312	-1,713
% growth y/y	*-2.2%*	*-5.7%*	*-10.8%*	*-7.8%*	*18.4%*	*12.8%*	*7.6%*	*-35.3%*	*57.8%*	*144.7%*
% of Revenue	*5.8%*	*3.6%*	*3.1%*	*2.5%*	*4.5%*	*4.3%*	*2.9%*	*3.5%*	*8.4%*	*8.7%*
Free Cash Flow (FCF)	**1,425**	**614**	**852**	**124**	**502**	**3,257**	**851**	**1,527**	**343**	**633**
% growth y/y	*3.6%*	*88.3%*	*47.9%*	*116.2%*	*144.9%*	*-4.8%*	*81.1%*	*-40.9%*	*-25.9%*	*-83.2%*
FCF/adj. EBITDA	*43.2%*	*19.0%*	*52.4%*	*9.9%*	*32.3%*	*73.1%*	*31.1%*	*29.2%*	*22.8%*	*10.9%*
Discretionary Cash Flow (DCF)*	874	-270	523	123	210	2,835	282	1,275	243	-1,027
% of Revenue	6.8%	-1.3%	5.5%	1.4%	2.9%	19.8%	2.9%	6.0%	6.6%	-5.2%
Cash and Cash equivalents	**1,688**	**2,471**	**1,363**	**960**	**1,722**	**8,575**	**1,401**	**3,133**	**320**	**7,835**
Adj. Net Debt	**10,059**	**25,712**	**11,714**	**7,256**	**12,833**	**11,300**	**11,546**	**30,875**	**5,390**	**9,011**
Adj. Net Debt/Adj. EBITDA	1.5x	4.0x	3.6x	2.9x	4.1x	1.3x	2.1x	3.0x	1.8x	0.8x

Discretionary Cash Flow (DCF) is FCF after dividend payment

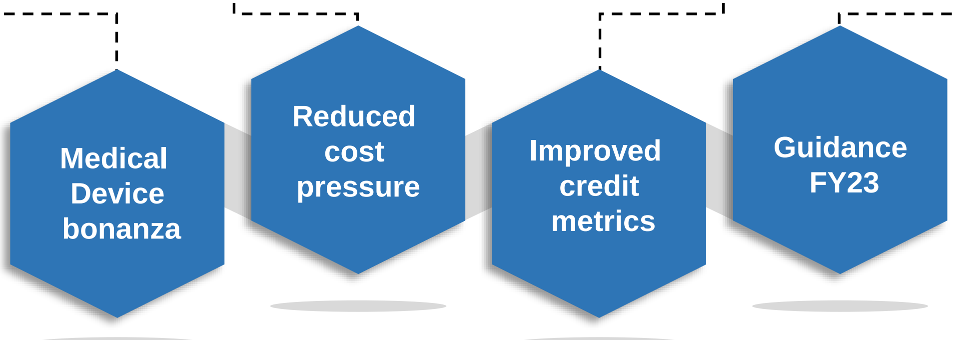
Noteworthy areas: Momentum in core business and ease in supply constraints

Sales momentum across names, except Danaher, Thermo Fisher (TF), and Abbott, on solid demand for medical devices in Europe and the US as patients resumed elective surgeries, which were postponed during the pandemic. Stryker edged out Zimmer Biomet (ZB) in knee cementless procedures buoyed by higher market share in the matured market. However, sales growth was partly mitigated by a significant contraction in the sale of COVID-19 testing kits in Abbott as well as softening in the bioprocessing segment in Danaher and TF.

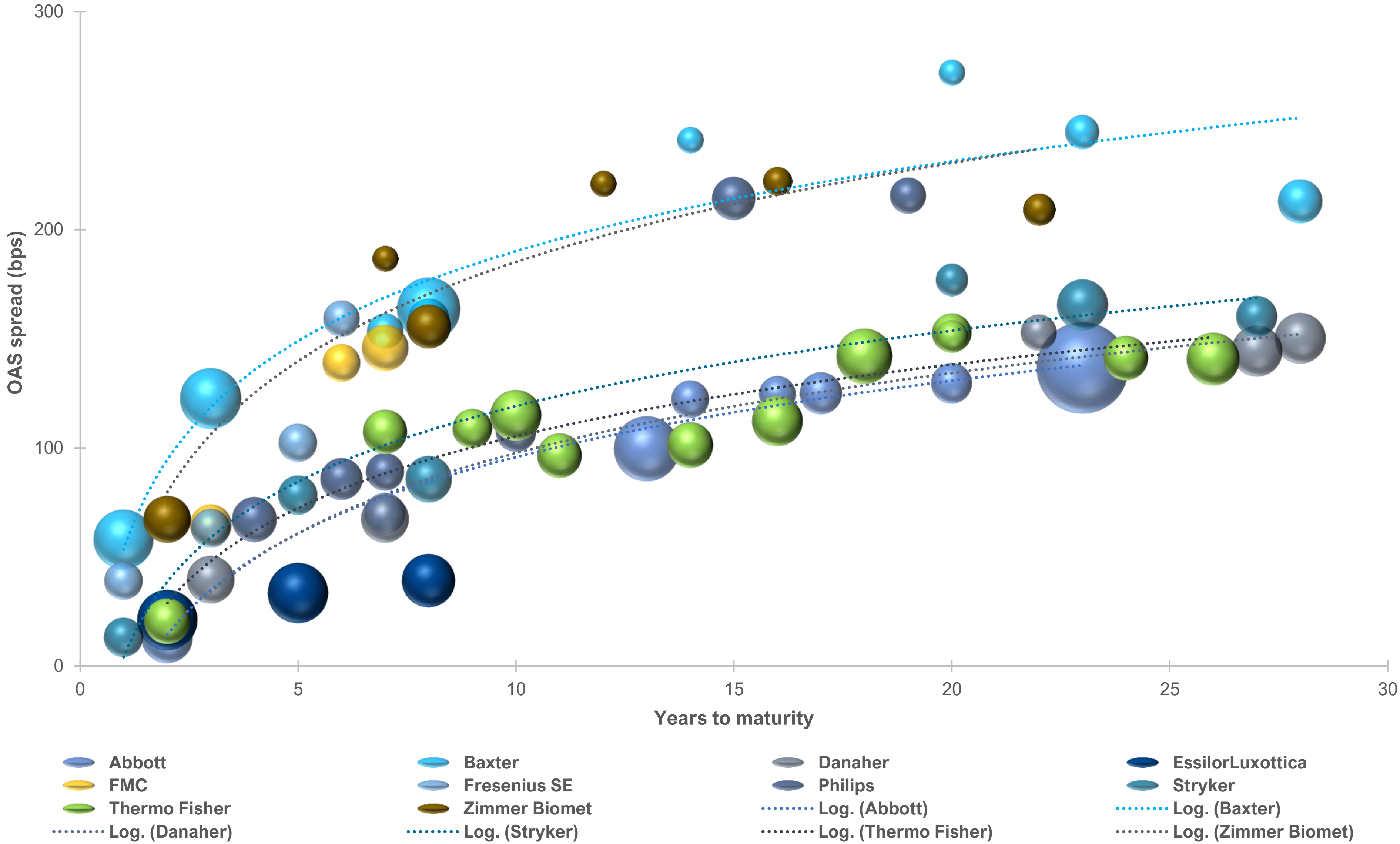
The sector faced hospital staff constraints and other supply chain pressure though it slightly eased compared to the 2020–21 level. This remains a key challenge for healthcare services like Fresenius Medical Care (FMC) and Fresenius SE as they spent most on retention of hospital staff, and thus, have the lowest operating margins. Nevertheless, the closure of underutilized non-core businesses to progress well with cost savings programs aided companies in the sector to retain healthy margins.

The deleveraging effort was seen at EssilorLuxxotica (EL), FMC, Stryker, and ZB led by a decrease in adj. net debt coupled with elevated adj. EBITDA. While adj. net leverage primarily improved for Philips' on higher profits and for Danaher on repayment of adj. net debt. However, Fresenius confirmed to attain leverage <4.0x by the end of 2023.

Philips, FMC, Stryker, ZB, Abbott, and Baxter's full-year outlook looks encouraging as these names have upgraded their FY23 guidance on easing in staffing and electromechanical components for devices, sustained pipeline momentum (Libre glucose sensor by Abbott), new products launch (Aveir by Abbott,1788 camera by Stryker), and cost-saving program despite tough macro conditions. However, TF and Danaher narrowed guidance on a continuation of the softer biotech market.



MedTech Relative Value – Current context



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