BULL & BEAR HEALTHCARE

BULL & BEAR RESEARCH

Fall 2024 Healthcare Report:

Medical Equipment and Devices

TABLE OF CONTENTS

TABLE OF CONTENTS

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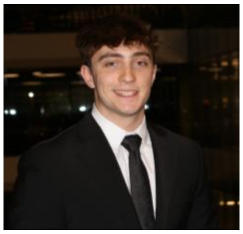

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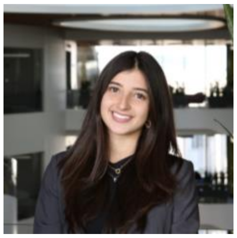

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Healthcare Sector Overview

HEALTHCARE OVERVIEW

General Overview

Healthcare is a broad sector that encompasses a wide variety of services, products, and systems that improve or maintain people's health. It is comprised of 11 industries, covering drug manufacturers, biotechnology, medical devices, healthcare plans, diagnostics and research, medical instruments and services, medical care facilities, and distribution. There are several key trends that are currently driving the sector such as aging populations, advances in technology, affordable care, and a shift toward more patient-centered care that is reshaping the sector. There is constant change and innovation within the space as healthcare systems are highly impacted on a global scale by disparities in access to care and in outbreaks of infectious diseases. There are around 1,200 companies within the sector that make up a market cap of $7.038T. The industry accounts for 10.67% of the S&P 500, and the S&P Healthcare index is up 14.4% from end of September 2023. Eli Lilly (LLY), UnitedHealth Group (UNH), and Novo Nordisk (NVO) lead the industry in terms of market capitalization, LLY is the top player at $826.56B. The industry faces significant barriers to entry due to high research costs and strict regulations, with healthcare products remaining largely price inelastic.

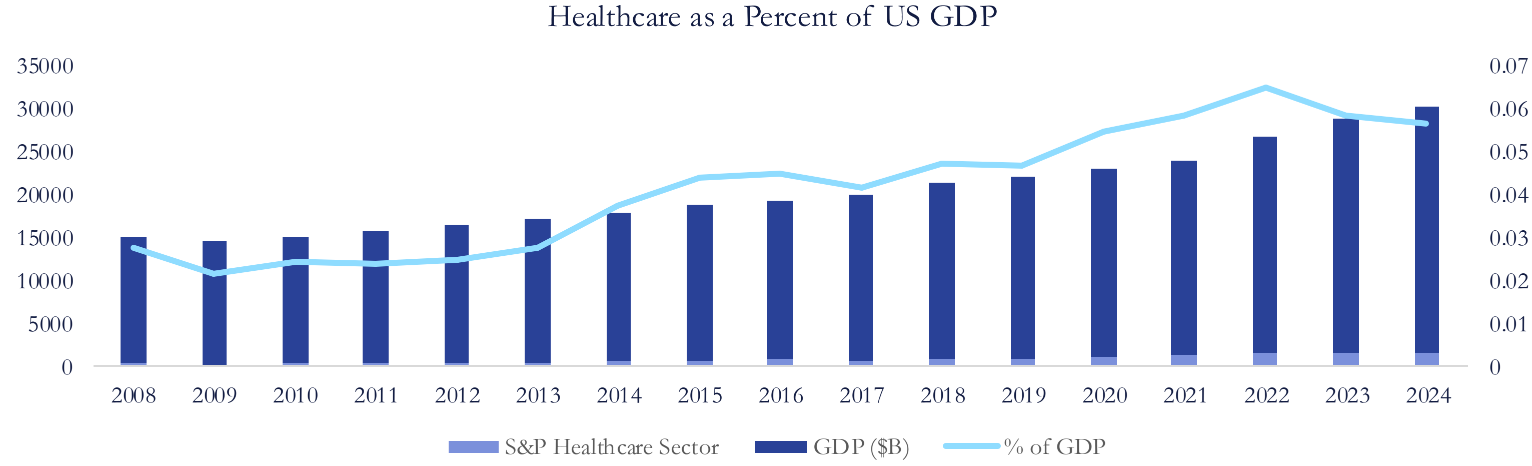
Consolidation

Recent years have seen increased consolidation within the industry, drawing regulatory scrutiny. The Federal Trade Commission issued a Request for Information (RFI) in May 2024 to investigate private equity and corporate control in healthcare. The RFI focuses on practices that may harm competition and consumers. This clear display of increased regulatory focus has the potential to negatively impact deal activity going forwards.

Technology and AI

Technological innovation, particularly the use of AI, is transforming the sector. Main use cases include improving administrative efficiency, such as provider credentialing and customer service management. This allows for better resource and staff planning, saving healthcare companies money and improving margins. The implementation of AI also enhances patient experiences by reducing wait times.

The healthcare sector is up 25.7% compared to the S&P 500 at 10.11% YTD as of November 10th. This is attributable to strong demand driven by demographic shifts, technological innovation, ongoing M&A activity, and increased focus on mental health and ESG. There is a significant increase in global aging populations with the number of people aged 65 years or older projected to more than double by 2050. This drives demand for medical care, surgeries, and treatments and is backed by increased government spending for health programs. Additionally, we saw breakthroughs in oncology, gene therapy, immunotherapy, cancer treatments, genetic editing, and cell therapy in biotech companies. M&A activity led to consolidation in healthcare this year with many larger companies participating in acquisitions to expand their portfolios and access new markets. Emerging markets are experiencing rapid growth in investments and infrastructure in Asia, Africa, and Latin America to develop and give populations access to better healthcare.



Sources: Bloomberg, Pitchbook, The Federal Trade Commission, McKinsey, Deloitte, MorningStar, S&P Global, Statista

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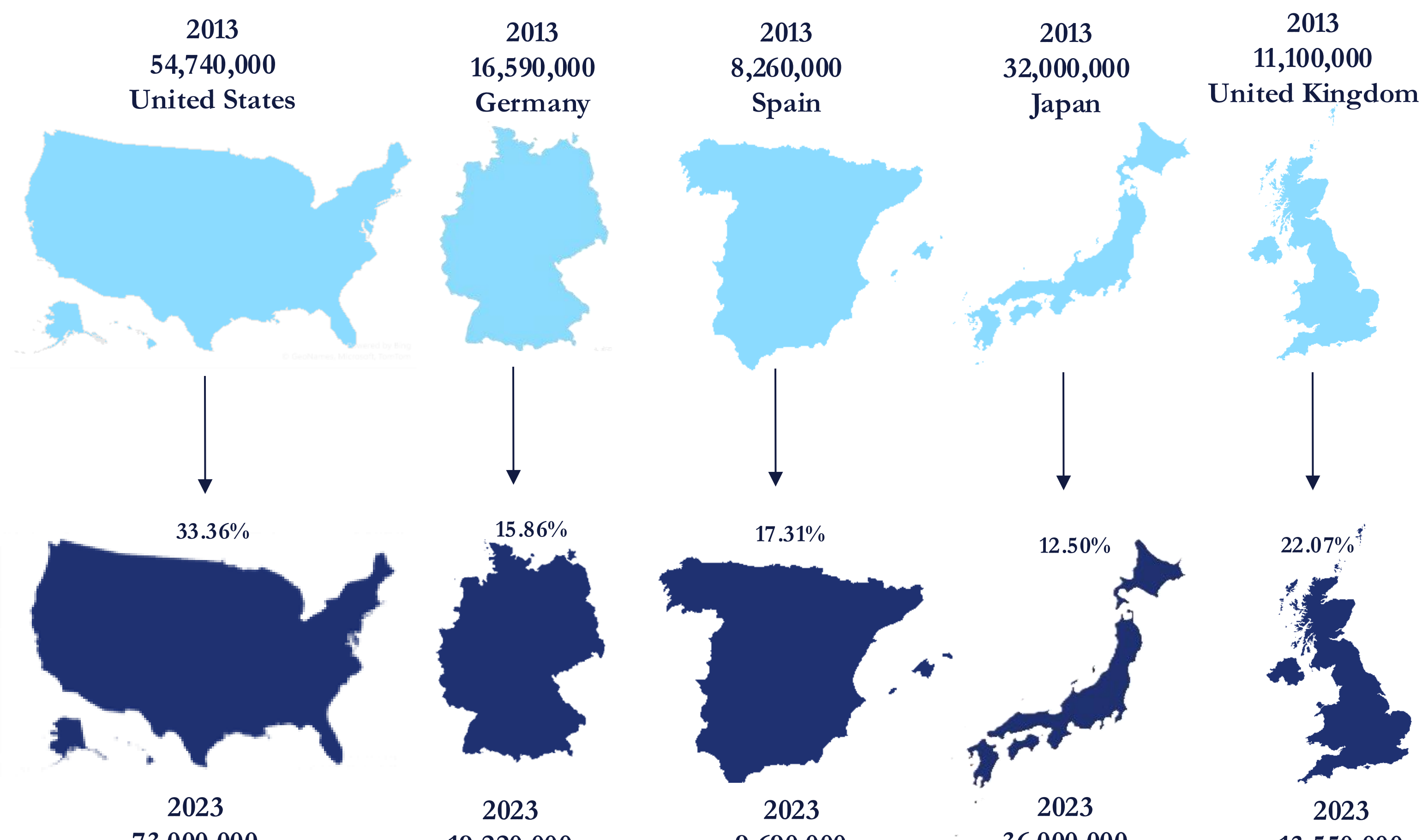
Medical Devices and Equipment Industry Overview

INDUSTRY OVERVIEW

General Overview

The Medical Devices industry falls into one of eleven key sectors in the healthcare industry, housing instruments and machines for disease prevention, diagnosis, and treatment. The industry, made up of six submarkets (Cardiology Devices, Diagnostic Imagine, Orthopedic Devices, Opthalmic Devices, General & Plastic Surgery Devices, and Other Medical Devices), facilitates innovation and advancement at the intersection of technology and medicine. In 2024, the market is valued at $508B with the United States emerging as a leader in revenue generation among the global market predicted to bring in $181B by year end. With an estimated compound annual growth rate (CAGR) of 5.68% from 2024-2029, the industry will see exponential growth and adoption leading to a projected market volume of $669.7B by the end of the exhibited period. Within the scope of the industry, products include implants and prostheses, assistive technology products, clinical engineering products, imaging devices, and active medical devices covering a broad range of supply meeting both trending and crucial needs in the healthcare realm.

Population Above 65 by Country



Trends & Drivers

Rapidly increasing demand, an aging population, and favorable healthcare reforms drive the global market as key players in Germany, Spain, Japan, United Kingdom, and United States lead in innovation and continue to boast thriving research and development focuses. From the increasing adoption of digital health to demand for wearable medical devices, trends are transforming the landscape of the subsector. As technology advances, the request for connected devices, telemedicine, and mobile health applications grows where consumers increase their virtual presence and telehealth interest. Facilitating industry growth, the Cardiology Devices market leads the way with an estimated market volume of $73.42B in 2024, as technologies that treat the heart become more highly needed. The rising need for novel medicines and improvements in technology, especially in cardiology, stems from the increased incidence of not just cardiac conditions, but all ailments that create the large consumer base for this market.

Sources: Statista, StartUS Insights, Census, YCharts

REGULATORY LANDSCAPE

US Pre-Market Regulations

The pre-market approval process for medical devices involves national regulatory bodies that significantly hinder a product's time to reach the market. In the US, the FDA's Center for Devices and Radiological Health (CDRH) is the sole governing body responsible for regulating firms that manufacture, label, package, import, or export medical devices. Once listed with the CDRH, products are rated as Class I, II, or III devices, each classification requiring more stringent regulation than the last. Class I and some Class II devices are exempt from Premarket Notification 510(k) approval. Devices not exempt require FDA clearance, indicating that the product is substantially equivalent, meaning similarly effective, to an existing product. Many Class II and all Class III medical devices require Premarket Approval (PMA), the most stringent regulatory constraint reserved for devices considered "high risk". The process forces manufacturers to provide scientific evidence that their products are safe and effective. While the 510(k) approval can take 3-6 months, PMA may take 1-2 years or longer, considerably delaying the time it takes for a life-saving product to enter the market.

EU Pre-Market Regulations

In comparison, the EU involves a complex web of regulatory bodies and certifications that impede the approval process for medical devices. European manufacturers must comply with the safety, quality, and efficacy rules set out by the European Medicines Agency. Then, devices are independently inspected by third-party entities called Notified Bodies. Once approved, firms can put the CE marking on their products, certifying them for sale in the EU. Devices that come into direct contact with humans, such as bandages, syringes, and heart valves, must be approved by the EU Medical Devices Regulation. Devices used for diagnostics, such as pipets and COVID-19 tests, must be authorized by the In Vetro Diagnostic Device Regulation. Together, these certifications tend to take up to 18 months, representing a massive hurdle nearly every medical device manufacturer must overcome.

Post-Market Surveillance

After a firm's device hits the market, they're not out of the woods yet. In the US, the FDA has the right to mandate post-market surveillance (PMS) reports for all Class II and Class III products. PMS is important not only for the safety of customers, but also for the reputation of the firm. Firms have 30 days to submit a plan and 15 months to begin collecting data on their product. Due to this fact, many firms implement their own quality and safety parameters in preparation for these mandates. The EU has even stricter rules for PMS. Every device on the market must complete a Clinical Evaluation Report, a Post-Market Surveillance Plan, a Post-Market Clinical Follow-up, a Post-Market Surveillance Report for Class I devices, and a Periodic Safety Update Report along with a Summary of Safety and Clinical Performance for Class II and Class III devices. While these mandates ensure the safety and performance of devices in this industry, they demand significant time and resources to execute.

Regulatory Approval Timeline

Day 1	3-6 Months	18 Months	2+ Years	+15 Months
US and EU firms request the respective approval for their device	US Class I and some Class II devices receive 510(k) approval	EU devices receive CE marking and corresponding Device Regulation approval	US Class II and Class III device receive Premarket Approval	Regulators may require firms to submit multiple post-market reports

Sources: Food and Drug Administration, EU Medical Device Regulation

HEADWINDS

Industry Decline

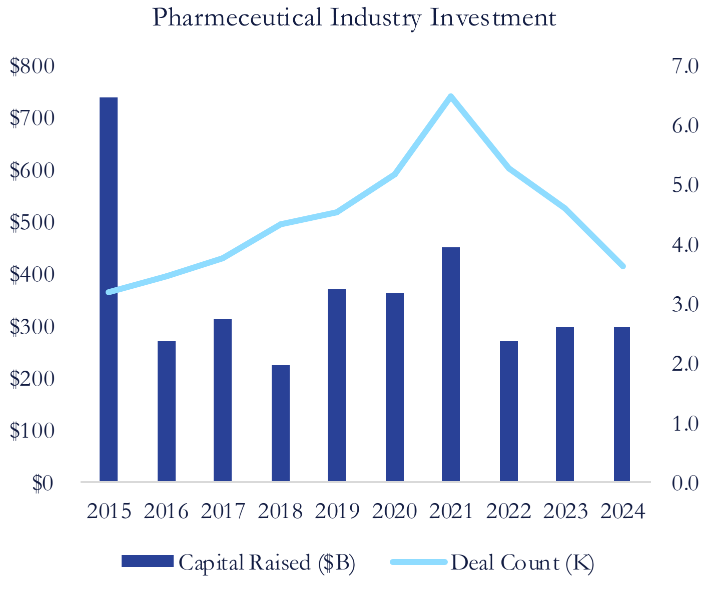
The industry saw low M&A activity throughout 2023, continuing a trend of underperformance. Medtech and medical device stocks have lagged the healthcare industry through September 2024, the fifth consecutive year of slower growth. 2023 was the second year of declining deal volumes following a surge of acquisitions in the industry in 2021. Most deals were smaller, sub-$1 billion tuck-in acquisitions, with larger, transformative deals being rare.

Valley of Death

The "Valley of Death" refers to the period of difficulty that firms face in moving their products from the development stage to market. The cost of getting a device to market can range from tens of millions to hundreds of millions of dollars, and it can take as many as 8 to 10 years to complete. During this time, firms must survive while investing time and money into development, hoping their product functions correctly, is safe and effective, and is adopted by professionals. It is estimated that 70-80% of products fail during development due to funding and regulatory challenges.

Popularity of Drugs

The growing popularity of weight loss drugs, particularly GLP-1 therapies, has led investors to shift focus away from obesity-related device stocks. These drugs are seen as reducing the need for medical devices used to diagnose and treat obesity-linked conditions such as cardiovascular health, diabetes, orthopedics, sleep apnea, and surgery. As a result, stocks in these areas have declined 17%.



Low Growth and Rising Input Costs

Finding high growth spaces in the industry is challenging with few exceptions such as cardiovascular therapeutics. This coupled with high input costs means minimized profitability within the industry. In the context of the MedTech industry, these input costs include raw materials, manufacturing, labor, energy, and transportation necessary to develop and produce medical devices. Rising input costs have constrained earnings, with 2023 profits nearly doubling 2022, but they still manage to be 9% below the pre-pandemic levels. R&D spending has remained stable, but high SG&A expenses consumed 22% of revenues in 2023, heavily weighing on profitability throughout the industry. Rising costs in areas such as SG&A could limit the flexibility of companies to invest more into R&D, constraining innovation and the development of new technologies.

Election Implications

The incoming administration comes with many possible headwinds for the industry. The US dollar has strengthened relative to other currencies which is a headwind to sales and earnings for medical device sales outside of the US. According to the Wells Fargo Economics team, US inflation is likely to remain between 2.5% and 3% through 2025. Additionally, some of President-elect Trump's proposed policies, notably tariffs and tax-cuts, can be inflationary. Medical device companies are not able to completely offset this inflation, so the margins of companies would face greater pressure. Lastly, healthcare coverage under the Affordable Care Act is likely to be negatively affected. This is not likely to be felt until 2026, but around 25% of people, or 5M people, could lose coverage. This would reduce the demand for some devices to minimize out of pocket costs and expensive treatments for patients.

Sources: KPMG, EY, McKinsey

TAILWINDS

Rising Global Demand

The global healthcare sector has seen an increase in chronic disorders, geriatric populations, and infectious diseases that have signaled a projected CAGR of ~6% for the next 5 years. The proportion of people aged 65 or more in developed nations has increased from 7% to 14% in the past several decades. As geriatric populations are the largest consumers of medical devices and this age group is becoming proportionally larger, there is a growing consumer base with a large propensity to consume products particularly within prescription medication, health monitoring, and surgical devices.

Self-Monitoring and Telehealth

COVID-19 spurred an already-present trend towards leveraging technological advancements for health monitoring. This has implications on patient-monitoring, record-taking, and telehealth capabilities. Pilot studies have shown that electronic consults can save users an average of $195 per month (primarily in specialty care expenditures) and are primarily being used in public payer populations. Consumer trust of these previously unfamiliar methodologies must pave the way to firms taking a more robust strategy on incorporating the medical devices into the daily patient experience.

Changing Consumer Demographics

The medical devices industry is facing large market expansion opportunities to fully appreciate the market of aging consumers. Furthermore, the global population holds immense room for devices directed towards addressing conditions such as diabetes that are growing in prevalence. An example of this is the continuous glucose monitoring space, where market leaders such as Abbott, Dexcom, and Medtronic have jumped to trailblaze new solutions.

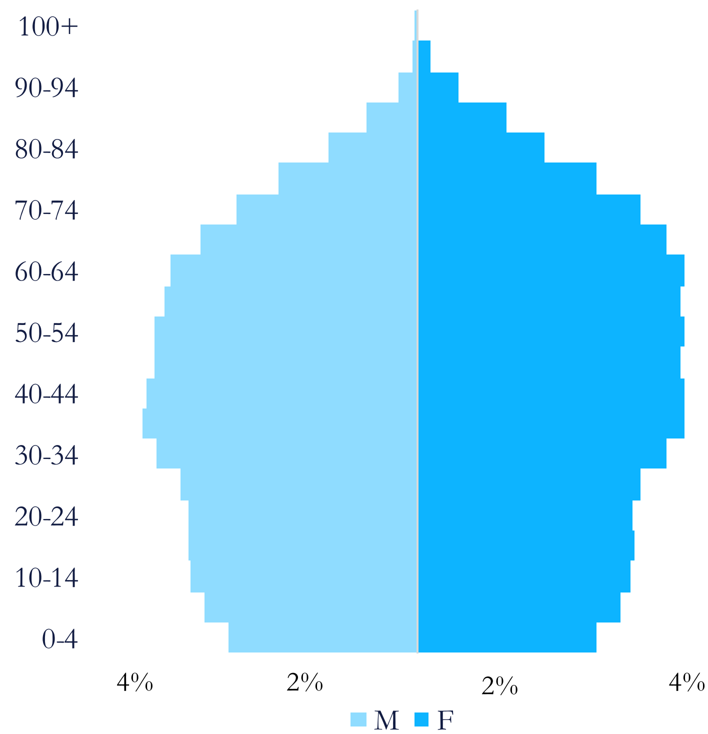
Opportunities in Surgery

Given further reliance on generative AI to improve efficiency in manufacturing and distribution of surgical devices, new possibilities for surgical medical devices have arisen. This trend in ML models in healthcare can even help medical devices diagnose or recommend treatments and procedures, which oftentimes are minimally invasive. The number of minimally invasive procedures is increasing, with many experts referencing the continuous glucose monitoring devices (mentioned previously) as a prime example.

Growing Access to Healthcare in Emerging Markets

Containing over half of the world's population, emerging markets represent an opportunity to grow for low-cost products. These opportunities arise particularly for medtech companies that decrease the cost of healthcare through the self-monitoring and telehealth trends. To capitalize on these chances, companies must look to produce domestically within emerging markets like China, where the government has placed a target for 50% of middle to high-end medical devices used to be produced within the country's borders. As both quality and quantity of healthcare providers in emerging markets has yet to be fully penetrated, there will be extreme opportunities for growth as income and (consequentially) demand increase.

Population Pyramid of More Developed Regions



Sources: BCC Research, Grandview Research, KPMG, Peterson-KFF, World Bank

ORTHOPEDIC DEVICES

Knee Products

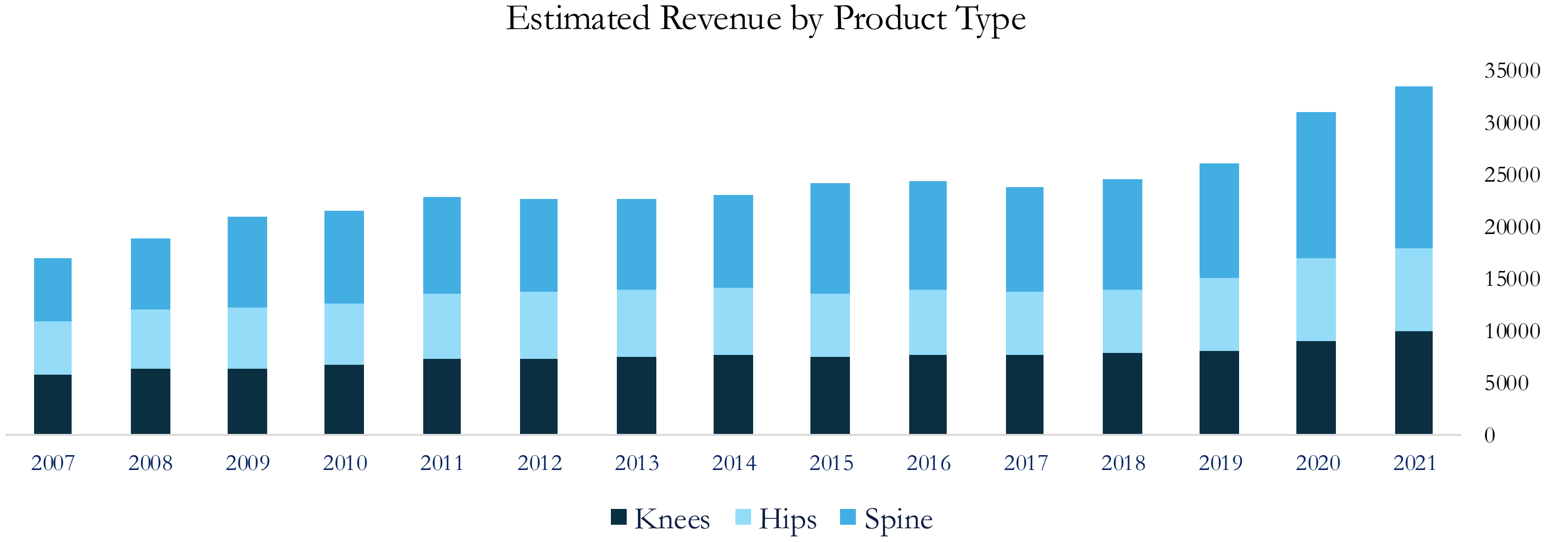
Knee products and devices make up 34.3% portion of the orthopedic devices segment. There is a broad range of devices and technologies to treat, stabilize, and support knee-related health conditions that can be broken down into items including knee braces, implants, surgical instruments, and rehabilitation devices. Knee braces provide stability and alleviate pain for patients with injuries and conditions, notably arthritis. Implants are categorized into total, partial, and revision strategies to treat joint degeneration to improve mobility. Arthroscopic tools are a significant example of surgical instruments that are used for minimally invasive knee surgeries. Continuous Passive Motion (CPM) machines are a popular rehabilitation device that is used for post-surgical recovery to enhance knee function. Key players within knee devices are Zimmer Biomet Holdings (ZBH), Stryker Corporation (SYK), and Johnson & Johnson (JNJ).

Hip Products

Hip products encompass a range of devices and implants that treat conditions such as arthritis, fractures, and degenerative diseases. Notable products are implants are used for joint replacement, fracture repair, and minimally invasive techniques, as well as emerging technologies like robotic surgery and tissue regeneration. The devices and technology used for total (arthroplasty) and partial hip replacements (hemiarthroplasty) are similar, though there a more components for a THR including acetabular cup (socket), femoral head, and liner. Other devices are used for hip fracture replacement, hip fixation and alignment, and hip revision implants. The growth of robotic-assisted surgeries have been accelerated by systems such as the Mako from FYK and the NAVIO system from SNN that increase the precision of hip replacement surgeries. Key players are Stryker Corporation (SKY), Zimmer Biomet Holdings (ZBH), Johnson & Johnson (JNJ), and Medtronic (MDT).

Spine Products

Spine products are used to diagnose, treat, and manage spinal disorders like herniated discs, scoliosis, spinal fractures, and many others. Surgical implants include rods, screws, and interbody cages that are designed for spinal stabilization and fusion in patients with deformities and degenerative disc disease. Spinal decompression devices and minimally invasive surgical instruments help alleviate pressure on spinal nerves and aid with recovery. Non-surgical devices include spinal braces and therapy devices that help pain relief from chronic back issues. There is a great deal of innovation and imaging technologies that enhance patient outcomes, reduce recovery times, and improve mobility that help a wide array of audiences from older adults to professional athletes. Key players for spinal products are Novartis AG (NUVA), Stryker Corporation (SYK), Globus Medical Incorporated (GMED), and Alpha Technology Holdings Incorporated (ATEC).



Sources: FDA, AAOS, Orthopedic Network News, ORS, Stryker, Zimmer Biomet, Smith & Nephew

CARDIOLOGY DEVICES

Overview

One of the largest revenue drivers in the Med Tech industry, Cardiovascular Devices have become a crucial component in keeping millions alive. Roughly 85 million of the population in the US suffer from some form of cardiovascular disease (CVD) or another. This number is only expected to rise in the coming years with the American Heart Association (AHA) forecasting an increase of around 10% in the prevalence of CVD over the next 20 years. The main players in the market overall in the past 10 years have seen a steady rise from around $20 billion to $50 billion in total revenue. A key benefactor of this expanding market growth is Medtronic who pioneered the market for minimally invasive surgery devices such as in transcatheter aortic valve replacement (TAVR) procedures. They also hold a robust selection of cardiac surgery devices that address other consumer needs, such as pacemakers and implantable cardioverter defibrillators. This past quarter it posted $8.0 billion of adjusted revenue, +2.8% as reported and +5.3% organically, and the cardiovascular portfolio achieved the seventh quarter in a row of high single digit growth. Medtronic's main competitor, Abbott Laboratories, have quickly begun encroaching on their market share, going from a relatively small player in 2016 to this past year being just 3.44% off Medtronic's total cardiology revenue. A surprising smaller player is Johnson & Johnson whose recent acquisition of Abiomed has indicated their strategic positioning to capitalize on the high growth product segment. A strong up and comer the new subsidiary attributed to JNJ's 47.67% increase in cardiology revenue this past year and will likely pose a threat to the established players in the coming years.

Forms of Devices

Implantable Cardioverter Defibrillators

Audience: Primarily used by those with advanced heart disease, heart failure, and genetic arrhythmias
Usage: In event of irregular and dangerously high heart rate, will deliver an electric shock to restore normalized heart rhythm
Top Providers: MDT, ABT

Biventricular Devices

Audience: Implemented for patients who suffered from heart failure and uncoordinated heart rhythm
Usage: In essence is a combination of an ICD and a pacemaker with the ability to slow or accelerate rhythm. Additionally, utilizes a third wire to recalibrate the heart's lower chambers.
Top Providers: ABIOMED (JNJ), ABT

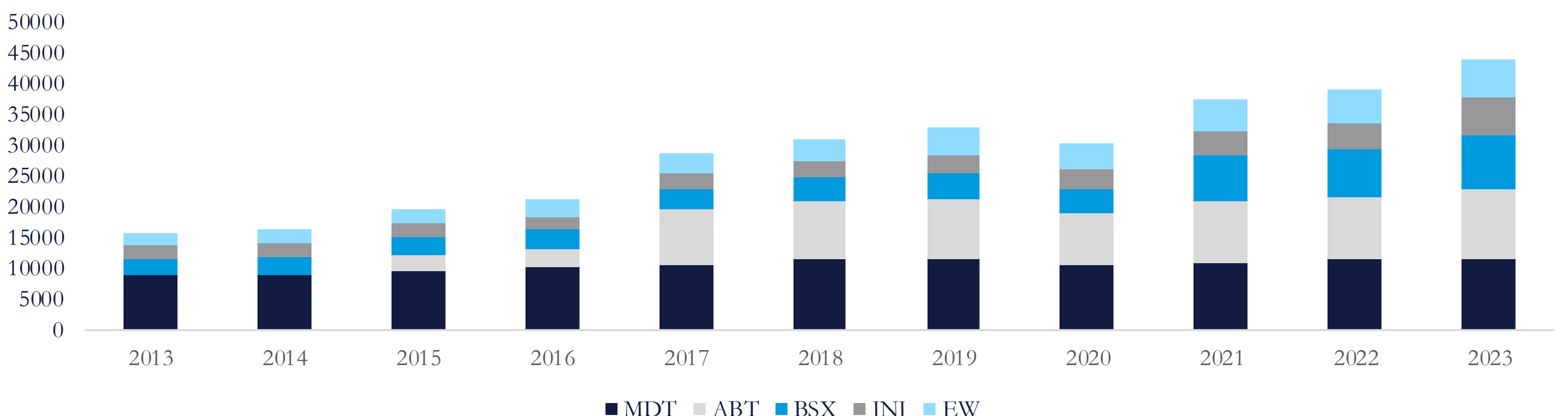
Pacemakers

Audience: Those with bradycardia, condition where the heart beats too slow
Usage: Consistently provides electric stimulus to the heart through either electrical lead or place directly in the heart
Top Providers: MDT, ABT

Implantable Cardiac Loop Recorders

Audience: Those with suspected heart abnormalities suffering from fainting spells, palpitations, arrhythmia
Usage: Subdermal heart rate and rhythm monitor for extended periods
Top Providers: MDT, BSX

Revenue of Cardiology Segment ($Bn)



Sources: Deloitte AHA, Bloomberg

M&A ACTIVITY

January 2024

Boston Scientific

Acquisition of

Axonics

for

$3.7B

Target Profile

Axonics was a publicly traded company that has pioneered developments in the urinary and bowel dysfunction device space.

Acquirer Profile

Boston Scientific is a global medical technology leader with a wide range of therapies and devices to help physicians best serve patients. Prior to the deal, Boston Scientific offered products within broader urology. The acquisition enables BSX to provide more tailored solutions for patients across different stages of incontinence

May 2024

Johnson & Johnson

Acquisition of

SHOCKWAVE MEDICAL

for

$13.1B

Target Profile

Shockwave Medical was a publicly traded medical technologies company with a focus in cardiovascular devices, particularly intravascular lithotripsy (IVL) technology.

Acquirer Profile

Johnson & Johnson is a global producer of healthcare products. While their pharmaceuticals business is the largest revenue driver, medical devices drives a large portion of the firm's growth through its orthopedics and surgery segments. The acquisition will provide Shockwave's team with the financing required to reach into underpenetrated markets like carotid artery and structural heart disease treatments.

October 2023

Athelas

Merge with

commure

Target Profile

Athelas was a digital tool developer that sought to improve patient health and engagement through cash flow management and remote health monitoring. Athelas CEO Tanay Tandon will act as the CEO of the new entity, focusing on expanding its market presence in health systems jumping on the ever-present trend of automation.

Acquire Profile

Commure was a private firm focused on optimizing healthcare business efficiency through a proprietary data platform. The combined workforce will include approximately 800 employees and hold a valuation of $6 billion.

September 2024

Boston Scientific

Acquisition of

SILKROAD MEDICAL

for

$1.26B

Target Profile

Silk Road Medical was a publicly traded company that engineered and commercialized the Transcarotid Artery Revascularization (TCAR) procedures.

Acquirer Profile

Boston Scientific is a global medical technology leader with a wide range of therapies and devices to help physicians best serve patients. The acquisition is projected to support BSX's long-term earnings as the company uses its resources to promote the adoption of TCAR and expand into international markets such as Japan and China

Sources: PitchBook, Boston Scientific

IPO ACTIVITY

May 2024 **Kindly MD** **$4/Share** **$6.83M**	**WallachBeth Capital**	Kindly MD blends traditional prescriptions, behavioral health services, and alternative medicine to create tailored plans that are customized for patients – the first healthcare company of its kind. The company's blend of data and patient care enables a strong and wholistic database with the goal of ending the opioid epidemic. Their system tracks unique and sought-after patient data aiming to be a non-opioid alternative medicine data source focused on practical, functional healthcare at an affordable rate.
October 2024 **Ceribell Inc.** **$23.26/Share** **$180.30M**	**BofA Securities**	Ceribell Inc. is the first AI-powered point-of-care EEG provider that aims to revolutionize seizure management in acute care. With the mission to establish a standard in EEG acute care, Ceribell differentiates themselves positioning the company well. Their public debut on the Nasdaq Global Select Market was to raise capital for expansion efforts to advance research and tap into European markets. Their main product, the Ceribell System, is for diagnosis and monitoring for seizure-prone patients that combines AI algorithms with hardware.
January 2024 **Autonomix** **$152/Share** **$11.17M**	**Ladenburg Thalmann & Co. Inc.**	Autonomix is a medical device development company that specializes in diagnosing and treating disorders related to the nervous system. Their innovative, catheter-based sensing technology uses a proprietary microchip to locate neural signals more effectively, avoiding the inaccuracies of other commonly used approaches. The company develops products to treat a range of conditions including pancreatic cancer, cardiovascular disease, nerve-related disorders, and even chronic pain.
February 2024 **Fractyl Health** **$2.32/share** **$110M**	BofA SECURITIES Morgan Stanley EVERCORE	Fractyl Health is a metabolic therapeutics company that develops innovative treatments for diseases like obesity and type 2 diabetes. Their offerings cover everything from ongoing symptomatic management to long-term gene-altering therapies that target organ-level causes of these conditions. Their goal is to end the idea that treatments for these diseases are lifelong commitments, but rather that long-term remission is possible.

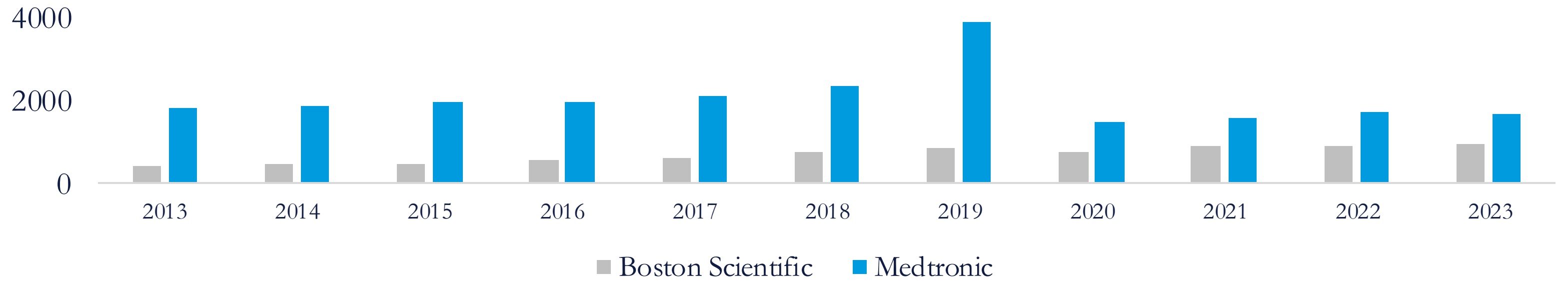
Sources: PitchBook, Bloomberg

NOTABLE DEALS

Boston Scientific Enters Agreement to Acquire Axonics

On January 8th, 2024, the all-cash deal was announced at $71 per share, reflecting an equity value of approximately $3.7 billion and an enterprise value of approximately $3.4 billion. The deal is expected to close by the end of the year but is facing a great deal of scrutiny from the FTC with the two companies being the dominant providers of some treatments for urinary incontinence. The acquisition would position BSX to compete with MDT who have held a monopoly on the neurostimulation therapy for urinary and fecal incontinence field for years. In addition to the competition, Boston Scientific would be onboarding an ongoing patent lawsuit between MDT and AXNX over the alleged infringed design of neurostimulation device. BSX and AXNX estimate that the neurostimulation field's market size, pegged at $800 million in 2022, is expected to double to $1.6 billion by 2028. It is notable to mention that BSX called off their acquisition a majority stake in South Korea's M.I.Tech Co. because of opposition from the FTC, but remain hopeful this deal will close.

Medtronic vs. Boston Scientific Neuromodulation Revenue Share ($MM)



Johnson & Johnson acquisition of Abiomed – Kickstarting Cardiovascular Acquisitions

On December 22nd, 2022, the deal closed at an agreed $380.00 per share in cash, corresponding to an enterprise value of approximately $16.6 billion. Underlining the strategic importance of the acquisition JNJ paid 50.7% over Abiomed's closing stock price of $252.08 pre-announcement making the deal the second largest in the medical devices space in the past five years. The transaction was expected to be slightly dilutive to neutral to adjusted EPS in the first year, considering the impact of financing, and then accretive by approximately $0.05 in 2024, with increasing accretion thereafter. JNJ quickly become a key player in the high growth cardiovascular space spending $31.8 billion in acquisitions of Laminar, Shockwave, V-Wave, and Abiomed in the past two years.

Notable Acquisitions by J&J into the Cardiovascular space

Ceribell IPO – Notable usage of AI

On October 11th, 2024, CBLL raised $180.3 million in their initial public offering, selling over 10 million shares at $17 per share, and boasting a post-offering valuation of $578.32 million. CBLL's initial public offering is pivotal in paving the way for AI-powered devices, demonstrating the success of machine learning and big data applications in MedTech firms. The AI-powered point-of-care product of CBLL makes EEG monitoring more accessible for clinicians in various medical settings, reducing reliance on advanced technicians and potentially expanding EEG use beyond specialized neurological clinics. Additionally, this deal plays a crucial role in reigniting the MedTech IPO market, contributing to the rebound of IPOs after two slow years in 2022-2023. CBLL is poised to be a catalyst in the rapidly growing AI in healthcare market, projected to reach $148.4 billion in 2029, which is currently valued at $20.9 billion.

Sources: PitchBook, Ceribell, JP Morgan

Comparable Companies Analysis

COMPARABLE UNIVERSE

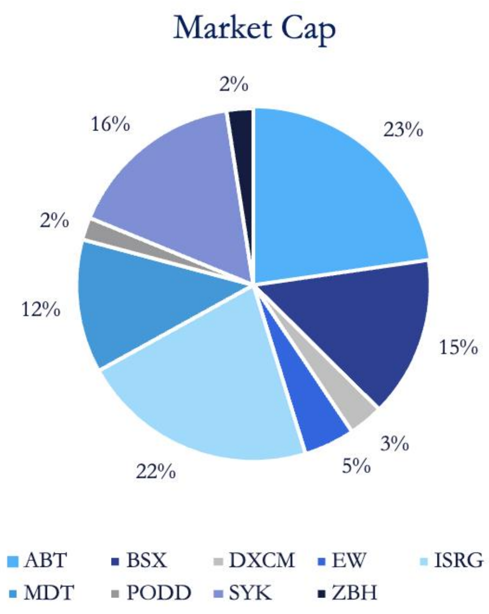
Logo	Company	Ticker	Description	LTM Revenue (millions USD)
	Abbott Laboratories	ABT	Global manufacturer or medical devices, diagnostics, and nutrition products in cardiovascular, diabetes care, and diagnostics areas. Notably glucose monitoring systems and hart stents.	41,217
	Boston Scientific	BSX	Medical device manufacturer focusing in endoscopy, urology, cardiology, and neuromodulation. Known for minimally invasive therapies across many conditions.	15,910
	Dexcom	DXCM	Specializes in glucose monitoring systems to manage diabetes care through real time glucose reading and advances analytics.	3,954
	Edwards Lifesciences	EW	Global leader in heart valve therapies and critical monitoring for patients with cardiovascular disease with minimally invasive surgeries and treatments for heart conditions.	5,873
	Intuitive Surgical	ISRG	Pioneer in robotic-assisted surgeries, notably the da Vinci Surgical System that improves precision and control for complex procedures in urology, gynecology, and general surgery.	7,867
	Medtronic	MDT	Offers a wide range of products including pacemakers, insulin pumps, spinal implants, and surgical robots across cardiovascular, diabetes, neurological, and orthopedic fields.	32,996
	Insulet Corporation	PODD	Leader in diabetes management, known for OmniPod, a wearable insulin management systems for flexible and effective insulin delivery for people with diabetes.	1,984
	Stryker Corporation	SYK	Involved in orthopedics, surgical equipment, neurotechnology, and spine care with surgical instruments, implants, and robotic solutions for joint replacement technologies.	21,974
	Zimmer Biomet	ZBH	Leader in musculoskeletal healthcare with products for joint replacement, trauma, spine, and advanced robotics and digital solutions for orthopedic surgery.	7,596

The universe above provides a comprehensive representation of the medical devices and technology industry with a range of companies that lead in key therapeutic areas such as cardiovascular, orthopedics, diabetes management, and robotic surgery. Each company places an emphasis on improving patient care and invest in technological innovations such as minimally invasive surgery, diagnostics to advance implants, and continuous monitoring systems. There are traditional medical devices manufacturers such as ABT and BSX as well as companies focused on cutting edge technologies like robotic surgery at ISRG and wearable technology with PODD. This representative all aspects of the industry with both established revenue stream businesses and products and high-growth solutions. Though this peer universe focuses on the medical technology footprint in the US, there are global leaders like MDT and ABT included that provide a good footprint from global giants in the space. These companies serve as an overarching representation of the medical devices industry and provide a benchmark for evaluating trends, valuation, and performance in the medical technology landscape.

Sources: Abbott, Boston Scientific, Dexcom, Edward's Lifesciences, Intuitive Surgical, Medtronic, Insulet, Stryker, Zimmer

COMPANY INFORMATION

Company	Market Cap (millions)	Enterprise Value (millions)	Price 12/6/2024	Revenue (millions)	Employees	Revenue/ Employee	Adjusted EPS	Beta
ABT	203,954	211,039	115.54	41,217	114,000	361,553	3.64	0.65
BSX	131,878	140,882	90.05	15,910	48,000	331,458	1.88	0.83
DXCM	28,469	28,568	77.72	3,954	9,500	416,211	1.78	0.92
EW	41,628	37,954	71.54	5,872	19,800	296,566	2.69	1.26
ISRG	194,673	190,535	550.41	7,867	13,676	575,241	6.25	1.09
MDT	109,728	130,287	83.99	32,996	95,000	347,326	4.17	0.76
PODD	18,429	18,924	265.46	1,984	3,000	661,333	3.58	1.21
SYK	146,684	158,007	384.82	21,974	52,000	422,577	10.33	0.80
ZBH	21,883	27,723	107.98	7,595	18,000	421,944	5.45	0.79
Lower	25,176	28,146	80.86	4,913	11,588	339,392	2.29	0.78
Median	109,728	130,287	107.98	7,867	19,800	416,211	3.64	0.83
Mean	99,703	104,880	194.17	15,485	41,442	426,023	4.42	0.92
Upper	25,176	28,146	325.14	4,913	11,588	339,392	2.29	0.78



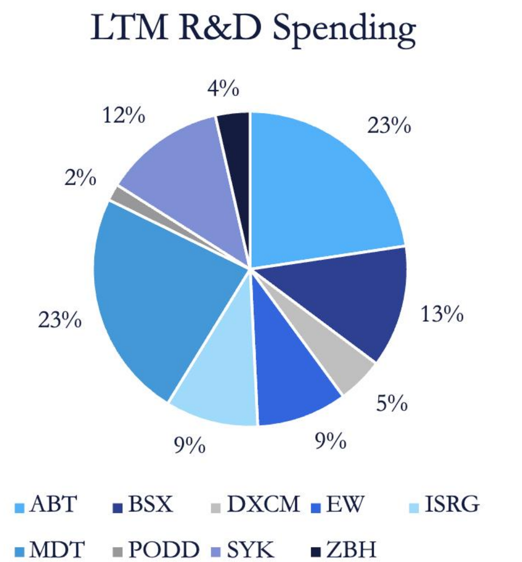
Market capitalization and enterprise value are indicators of a company's value. Enterprise value, incorporating debt and excluding cash, shows a more comprehensive assessment. ABT, ISRG, and MDT are the three largest companies represented by both metrics. This reflects the size difference of these companies, showing their global presence and innovation. ABT and MDT also have the two highest revenues in the last twelve months. However, ISRG is the second highest by MC and EV and is in the middle by revenue, yet it leads in revenue per employee. This shows that the company is using their resources more efficiently than their competitors by revenue generation. Similarly, BSX has revenue that is close to the mean of the comparable set, but its market capitalization and enterprise value are significantly higher than the mean, signaling that the market is placing a higher value on the company due to potential growth opportunity, strategic positioning, margin and profitability growth. Its revenue per employee is one of the lowest, which could mean that they are focused on innovative products and technologies that are not yet generating high revenue. Despite having both the lowest MC, EV, and revenue, PODD has the highest revenue per employee. As the company that has the lowest revenue from the universe, this shows that they are using their resources efficiently and can generate over 50% higher revenue than both the median and mean of the set. ISRG follows with the second highest revenue/employee, which shows that large companies can generate high revenues per employee through innovation and new products. BSX and SYK have similar employee levels, yet SYK has generated nearly 40% more revenue in the past year. SYK also stands out with the highest adjust earnings per share with 10.33, which is over double the average. It still has a low beta, which indicates profitability and efficiency while maintaining a low risk profile. ISRG is second in adjusted EPS at 6.25, still nearly double the median, while its beta is 1.09, also the second highest in the comparable companies set. As their relative positioning is stagnant, but adjusted EPS is significantly higher than the upper quartile, while the beta is closer to the upper quartile, it signifies that the company is investing maintaining a strong level of profitability while mitigating their risk profile.

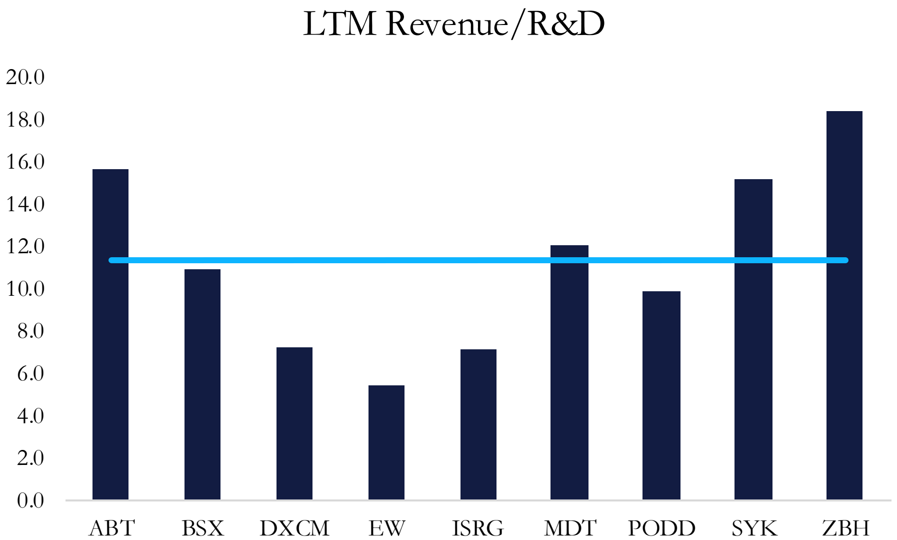
Sources: Bloomberg, Pitchbook, Yahoo Finance, Investopedia, respective company websites

R&D PIPELINES

Company	2017	2018	2019	2020	2021	2022	2023	LTM
ABT	1,999	2,213	2,242	2,295	2,636	2,606	2,519	2,634
BSX	974	1,052	1,138	1,046	1,146	1,259	1,414	1,462
DXCM	185	200	274	360	517	484	506	549
EW	553	622	753	761	903	945	1,072	1,081
ISRG	329	418	557	595	671	879	999	1,111
MDT	2,256	2,330	2,331	2,493	2,701	2,632	2,735	2,731
PODD	75	89	130	147	160	180	205	201
SYK	787	852	915	905	1,133	1,230	1,293	1,450
ZBH	370	392	413	347	395	353	403	414
Lower	257	296	343	353	456	419	454	481
Median	553	622	753	761	903	945	1,072	1,111
Mean	836	907	972	994	1,140	1,174	1,238	1,292
Upper	1,487	1,633	1,690	1,671	1,891	1,933	1,967	2,048

Research and development is a key line item to examine for medical device and technology companies as innovation and development for new products drives revenue generation and profitability drivers. Since ABT is the largest company in the universe by market capitalization, enterprise value, and revenue, and MDT is the second highest by revenue, it is no surprise that their R&D spending are the two largest. ABT is the highest by all three measures, but MDT has marginally higher R&D spending than ABT in every year since 2017, which is surprising since its revenue is 25% lower. ISRG, however, is second largest company by market cap and enterprise value, but much lower in revenue, which explains why it has a lower R&D spending. SYK is the third largest by revenue but trails at fourth in R&D spending in the last twelve months. SYK has had the most consistent growth in R&D spending since 2017 each year, which, as the newest company of the three mentioned, is aligned with expectations.





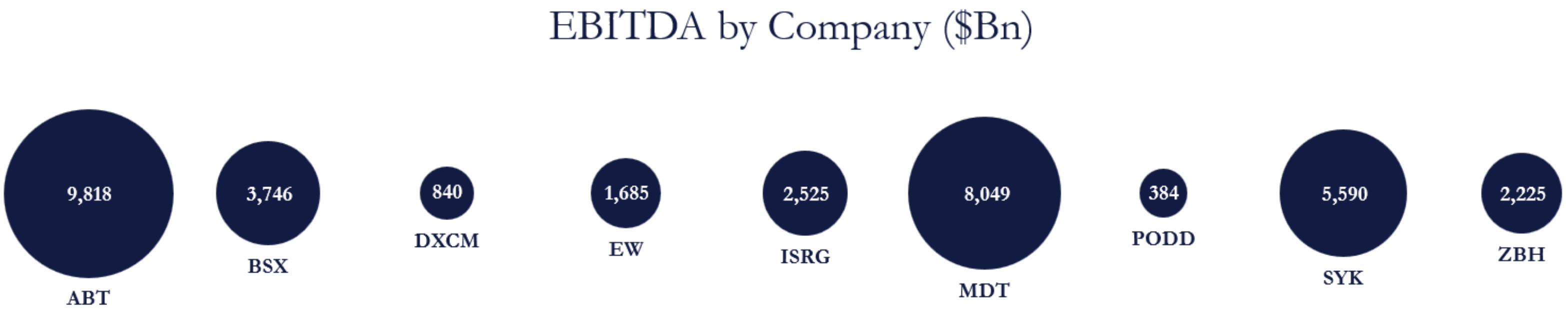
The chart on the left illustrates each company's revenue/R&D ratio from the last twelve months compared to the average. Higher revenue/R&D shows that a company is generating greater revenue per dollar spent on research and development. ZBH leads here at 18.4x with ABT close behind at 15.6x and SYK at 15.2x. EW trails at the bottom of the comps set at 5.4x, and ISRG and DXCM both around 7x. This is surprising as ISRG leads in revenue/ employee, which shows that they generate strong revenue for the workforce, without a high return from research and development.

Sources: Bloomberg, Yahoo Finance, Investopedia, Respective Company Websites

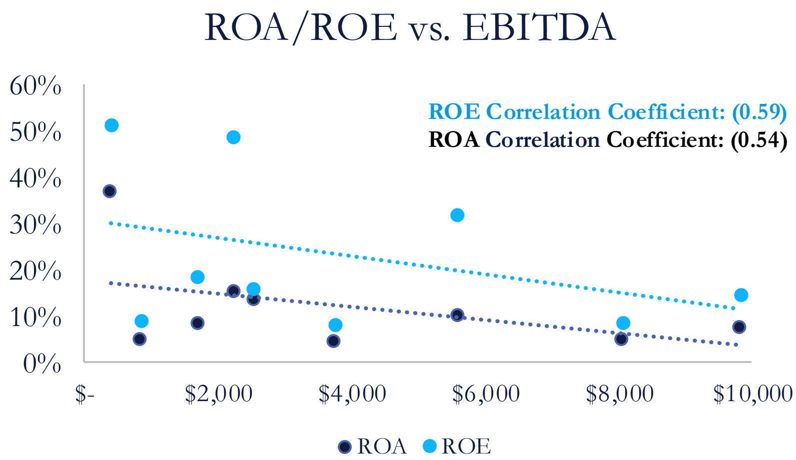
PROFITABILITY

Company Name	Gross Margin	Operating Margin	Profit Margin	EBITDA ($Bn)	ROA	ROE
ABT	55.55	16.24	14.00	$9,818	7.88	14.93
BSX	68.98	15.79	11.26	$3,746	4.97	9.05
DXCM	61.68	15.88	17.22	$840	10.51	32.06
EW	78.02	25.67	70.82	$1,685	37.23	51.33
ISRG	66.98	26.24	28.51	$2,525	13.82	15.95
MDT	65.05	16.39	13.00	$8,049	4.76	8.58
PODD	69.36	15.42	21.22	$384	15.32	48.79
SYK	63.57	19.86	16.34	$5,590	8.77	18.87
ZBH	71.88	16.47	14.27	$2,225	5.05	8.71
Lower	62.63	15.84	13.50	$1,263	5.01	8.88
Median	66.98	16.39	16.34	$2,525	8.77	15.95
Mean	66.79	18.66	22.96	$3,874	12.03	23.14
Upper	70.62	22.77	24.87	$6,820	14.57	40.43

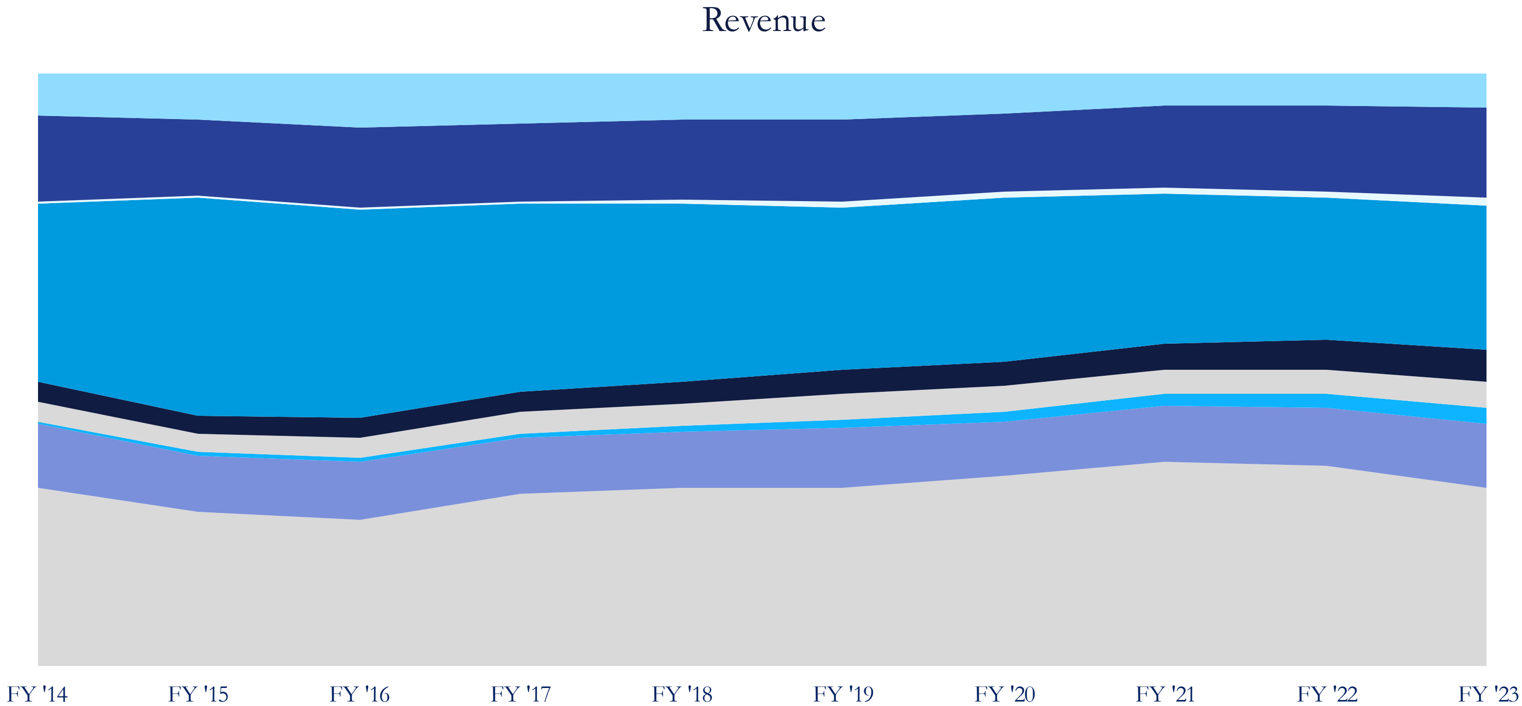
Each company in our comparable set boasts healthy profitability metrics with an average gross margin of 66.98%, operating margin of 18.66%, and profit margin of 22.96%. When looking at the margins, even the weakest performers in the lower quartile are still relatively efficient. This highlights the sheer level of competition that companies in the sector face when attempting to claim further market share. Noteworthy to mention is Edwards Lifesciences with an exceptionally high profit margin of 70.82% indicating their strength in the niche yet high-value transcatheter heart valve market. Another outperformer is Intuitive Surgical with a profit margin of 28.51%. This trend continues through most all of the metrics indicating EW and ISRG as the benchmark for operational efficiency in the sector. When looking at EBITDA an obvious trend occurs with the larger companies with sprawling product exposure posting much higher values than their counterparts.

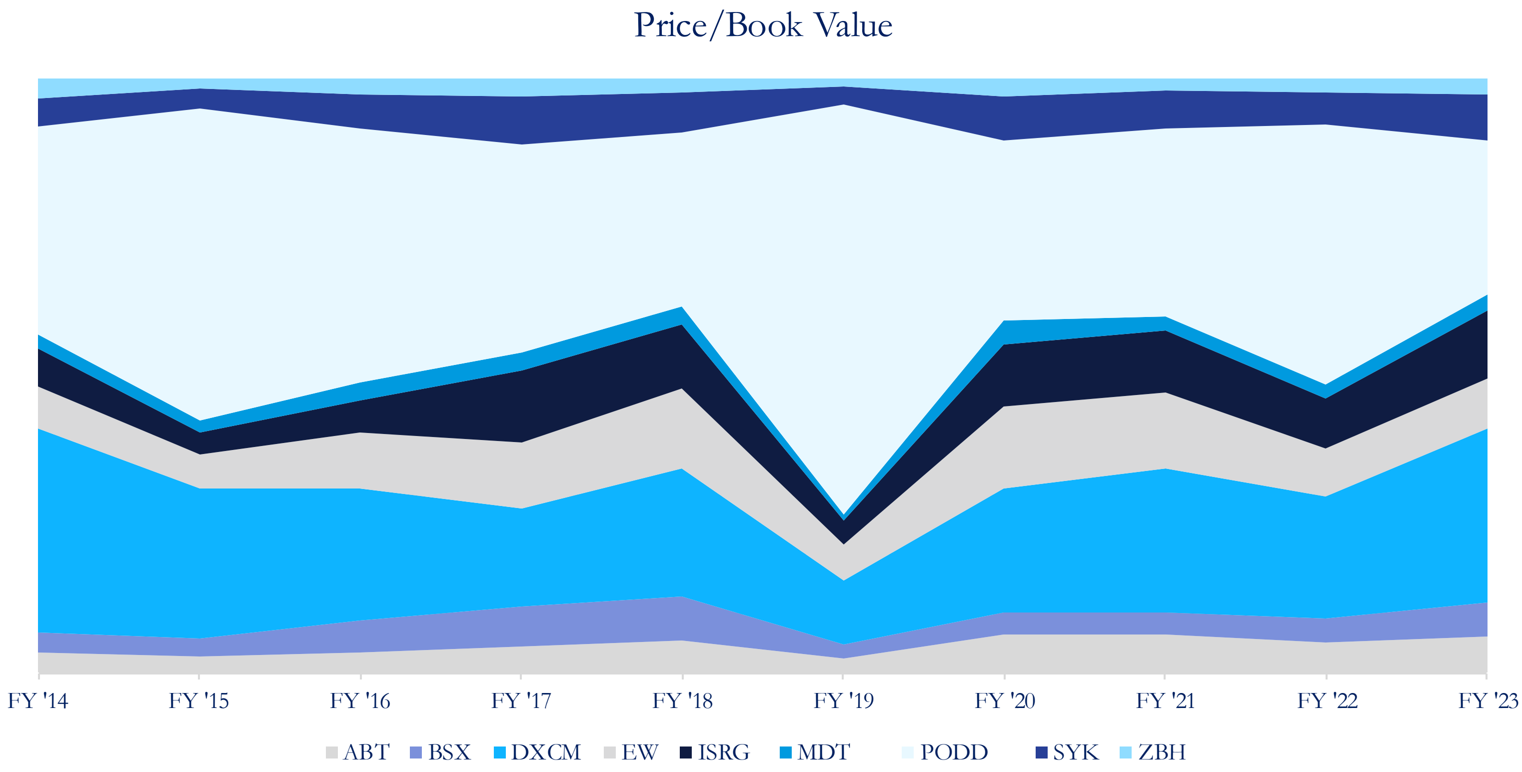


Notably the ROA of these larger companies staggers when compared to their less asset intensive competitors implying a level of diminishing returns on their asset utilization. A similar trend can be seen in ROE with the larger companies posting lower ROE indicated a heavier reliance on equity financing. When running a correlation analysis, we found a moderately negative -0.59 coefficient between ROE and EBITDA and a -0.54 correlation between ROA and EBITDA. This level of correlation demonstrates why so many startups are so successful in this sector as the larger players ironically suffer from their own success and in turn asset dependency.



MARKET SHARE





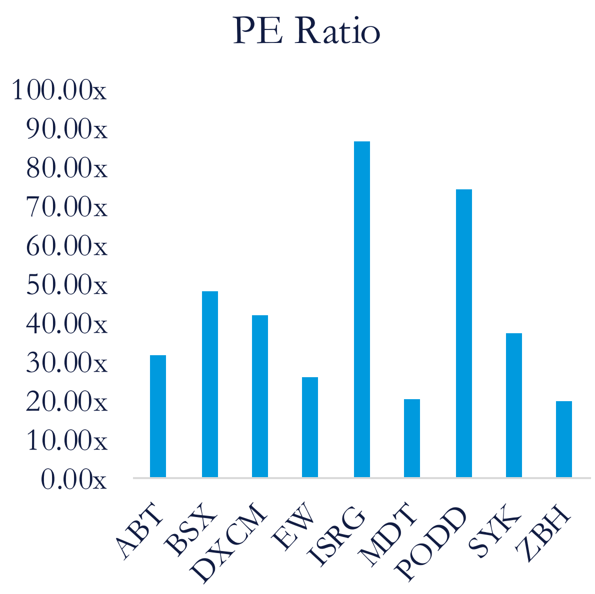
The graph shows the companies relative positions to each other in market share and valuation by comparing their revenue and price to book share. MDT consistently maintaining a dominant market share can be attributed to its extensive product portfolio whereas the graph demonstrates growth seen in SYK and DXCM as they undergo strategic acquisitions and rising demand particularly in DXCM's glucose monitors. Conversely, ZBH has seen declines in revenue share over the past year likely due to limited diversification, highlighting the contrast between operational success and market perception. The second graph further represents this contrast in highlighting SYK and DXCM's valuation premiums that stem from investor's confidently positive sentiment towards their growth and innovation promise, where MDT stays modest while reflecting market skepticism in their potential for growth in a maturing market.

Sources: FactSet, Medtronic, Stryker, Zimmer Biomet, MarketWatch

VALUATION AND GROWTH

	Valuation Metris					Growth (YoY%)		
Company	EV/EBITDA	EV/FCF	Price/Book	P/E	P/Sales	2025	2026	2027
ABT	19.31	32.09	5.05	31.83	4.9	7%	7%	7%
BSX	28.42	65.82	6.42	47.95	8.33	12%	10%	10%
DXCM	27.13	55.12	14.85	42.17	7.46	15%	15%	18%
EW	18.45	68.67	4.3	25.8	7.12	1%	9%	11%
ISRG	67.12	322.27	12.38	86.64	24.39	17%	16%	15%
MDT	14.67	23.35	2.22	20.16	3.33	4%	5%	5%
PODD	43.57	84.48	16.72	74.46	9.41	18%	18%	17%
SYK	24.77	49.41	7.3	37.32	6.68	8%	8%	9%
ZBH	10.92	25.15	1.76	20.05	2.95	5%	5%	5%
Lower	16.56	28.62	3.26	22.98	4.12	4%	6%	6%
Median	24.77	55.12	6.42	37.32	7.12	8%	9%	10%
Mean	28.26	80.71	7.89	42.93	8.29	10%	10%	11%
Upper	36.00	76.58	13.62	61.21	8.87	16%	15%	16%

Valuation ratios provide insight into the efficiency of companies in converting sales to EBIT and EBITDA as a proportion of their enterprise values. The most efficient company as per EV/EBITDA is ZBH with 10.92, indicating a relatively lower valuation. The company recently implemented new management software, which disrupted business operations and led to a dip in the stock price. Reflecting the high growth expectations for the surgical robotics niche, ISRG displays a premium valuation of 67.12. Although these ratios are often indicative of a comparable EV/FCF, ISRG stands out as having a disproportionately large EV/FCF ratio, indicating efficient returns that investors will, and do, pay a premium for. Looking at P/E ratios, ISRG stands out with 86.64, 43.71 above the mean. PODD also holds inflated value with a P/E of 74.46. ABT, BSX, DXCM, and SYK are all close together in the 30-50 range. The two companies hold premium valuations due to near-monopoly positions in their markets, both commanding favorable growth trajectories.



EW is expected to have a low growth of 1% in 2025 before jumping up to 9%, then 11% in 2026 and 2027, respectively. Comparatively, ZBH and MDT are expected to have significantly slow growth of ~5% over the next three years. ZBH and MDT rely on intangible assets, which have been steadily decreasing for both companies over the past 8 years. DXCM has the highest, increasing growth rate over the next three years, moving from 15% next year to 18% in 2027. Its growth is expected to exceed PODD, the set leader in terms of growth, by 2027.

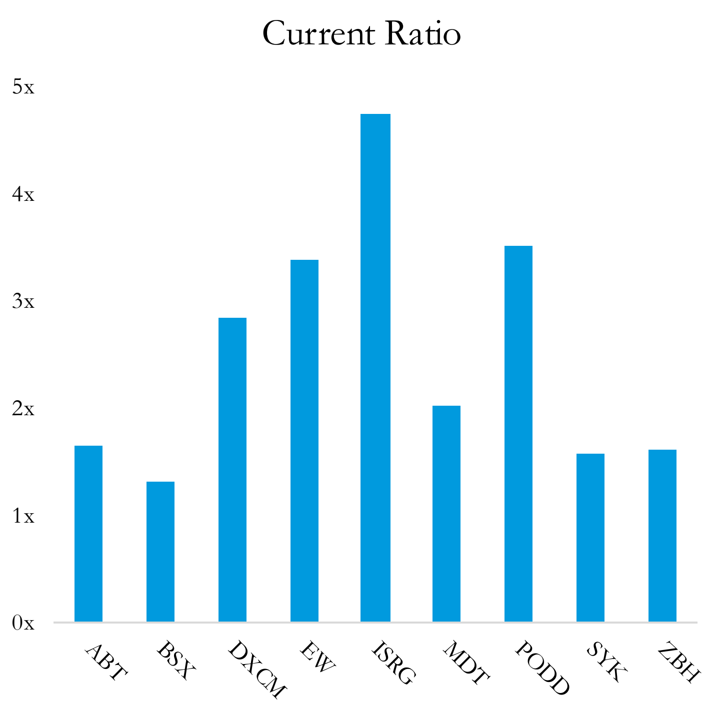
Sources: Bloomberg, Pitchbook, respective company websites

LIQUIDITY AND LEVERAGE

(12/31/2023 - in $Millions)

Company	Operating Cash Flow	Current Assets	Total Assets	Current Liabilities	Total Liabilities	Liquidity			Leverage		
						Current Ratio	Quick Ratio	Cash Ratio	Debt / Equity	Debt / Assets	Interest Coverage Ratio
ABT	7,261	22,670	73,214	13,841	34,387	1.64	1.16	0.53	0.36	0.47	10.17
BSX	2,503	6,514	35,136	4,933	15,605	1.32	0.82	0.18	0.25	0.44	8.84
DXCM	749	4,426	6,265	1,556	4,196	2.84	2.48	1.75	0.75	0.67	29.44
EW	896	4,036	9,363	1,195	2,644	3.38	2.40	1.38	0.18	0.28	87.16
ISRG	1,814	7,888	15,442	1,659	2,044	4.75	4.08	3.15	0.12	0.13	N/A
MDT	6,787	21,935	89,981	10,789	39,561	2.03	1.55	0.74	0.21	0.44	7.15
PODD	146	1,583	2,588	451	1,856	3.51	2.62	2.00	0.62	0.72	20.82
SYK	3,711	12,518	39,912	7,921	21,319	1.58	0.97	0.39	0.43	0.53	10.92
ZBH	1,582	4,610	21,497	2,858	9,009	1.61	0.78	0.15	0.23	0.42	6.35
Lower	896	4,426	9,363	1,556	2,644	1.61	0.97	0.39	0.21	0.42	8.42
Median	1,814	6,514	21,497	2,858	9,009	2.03	1.55	0.74	0.25	0.44	10.55
Mean	2,828	9,576	32,600	5,023	14,513	2.52	1.87	1.14	0.35	0.46	22.61
Upper	3,711	12,518	39,912	7,921	21,319	3.38	2.48	1.75	0.43	0.53	22.97

The chart represents liquidity and leverage metrics that reflect each company's market positioning and operational approach. ISRG's high Current Ratio and Cash Ratio highlight its strong cash reserves and low debt positioning. This structure allows its capital-intensive focus on surgical robotics innovation to support itself. DXCM's liquidity aligns with their rapid growth and heavy investment in diabetes management technology. Highlighting an alternative strategy, ZBH's focus on orthopedic products that rely on inventory shows a lower Current Ratio. Alternatively, moderate liquidity is seen in PODD as their higher leverage can enable them to expand into more products in the Medical Devices market niche of self-monitoring technology. These liquidity profiles show the balance that each comparable company achieves in growth potential, innovation, and financial strength. Where strong liquidity supports rapid R&D expansion, inventory management and leverage leaders represent alternative approaches.



From a leverage standpoint, companies like PODD and DXCM show higher Debt/Equity and Debt/Assets rations that give insight into their growth financing that can enhance returns in positive market conditions and scenarios. These companies' ratios demonstrate their goals to development innovative products in fast-evolving markets as they are comfortable taking risk that requires effective debt management.

Sources: Bloomberg

BBR H BULL & BEAR HEALTHCARE

Initiating Coverage:
Stryker Corporation

STRYKER CORPORATION - SYK

Recommendation:	BUY	P/E	41.59x
Price Target:	$420.87	EV ($Bn)	160.82
Current Price:	$392.15	EV/EBITDA	26.10x
52-Wk Range:	$285.79 – $398.20	Beta	1.02
Market Cap ($Bn)	146.12	EPS	2.16
Shares Outstanding (Mn):	380.26		

Company Overview

SYK is a global company with customers among different healthcare facilities including doctors and hospitals through subsidiaries, branches, distributers, and third-party dealers. Known for their portfolio in trauma and extremities products, SYK differentiates themselves through surgical treatment of bone fractures, abnormalities, and diseases helping improve patient and healthcare outcomes. Operating in three main business segments (Orthopedics, MedSurg, and Neurotechnology and Spine), SYK experiences strong demand especially because of pandemic-postponed non-urgent surgeries. With strong financials, they maintain a large market share in the medical devices industry experiencing a 12% revenue increase (YoY) and holding 34.35% share of the orthopedic products manufacturing industry, showing remarkable resilience in the ever-evolving landscape of healthcare. In 2023, the company invested $1.5~ billion into research and development showcasing their commitment to innovation and positively impacting patients internationally.

Latest News

- Unveiled the Oculan Lighting Platform, an innovative lighting solution designed to provide consistent, high-quality illumination, allowing surgeons to focus on delivering the highest standard of care for every patient.
- Announced the launch of the next generation of SurgiCount+ within their sponge management portfolio.
- Announced completion of Vertos Medical Inc acquisition.
- Stryker completed the acquisition of NICO Corporation.
- Joins Atrium Health affiliate IRCAD North America to advance surgical training and education focused in the areas of robotics, medical virtual and augmented reality, surgical artificial intelligence and simulation training.
- Launches Gamma4 Hip Fracture Nailing System in EU.
- Announced acquisition of Molli Surgical and its miniature tissue marker for targeting breast cancer lesions in surgery.
- Set record in Q2 for installations of Mako orthopedic robot, the third quarter in a row to see record installations.

Investment Thesis

Stryker Corporation (SYK) offers a compelling investment driven by its market leadership, strong innovation pipeline, and strategic positioning informing our target price of $420.87. With strong, outperforming organic growth of 8.5%-9.5% forecasted, the demand for Stryker's products is without question. A series of brand-new systems and platforms meet this growing demand head on, and the $1.5 billion in R&D last year will bolster their product pipeline. With a series of strategic acquisitions Stryker is well positioned to maintain leadership in orthopedics and digital surgery. With a solid dividend yield of 1.15% and a low beta of 1.02 and reliable growth metrics we recommend Stryker with our buy rating.

Street View

The overwhelming majority of the street has SYK as a buy with 75% of our selected analysts posting buy or overweight ratings on the stock. Additionally, Morgan Stanley analyst Patrick Wood recently upped his price target 14.21% from $370 to $445. Following Q3 earnings, analysts became extremely bullish on SYK with names such as J.P. Morgan, Citi, and Wells Fargo altering their rating to overweight from equal-weight. Some analysts expressed doubt at the strong earnings, deeming the market "overreacted" to the strong earnings and still faces numerous challenges from ever increasingly competitive sector. While these analysts expressed doubts their rating remained at either neutral or equal-weight, demonstrating confidence in a corrected yet steady growth.

Sources: Bloomberg, Pitchbook, Stryker, Reuters

STREET PERSPECTIVE - SYK

Stryker Corporation

Select Commentary

Morgan Stanley — **Price Target: $445**

Rating: BUY

- Double-digit EPS growth driven by 200 bps of margin recovery by '25, and 30 bps in subsequent years could debunk a critical investor concern around leverage
- A strong product pipeline across all categories can be augmented by M&A to further sustain top-tier growth portfolio with an increasingly flexible balance sheet
- Performance will be predicated on the company's ability to execute on plan for margin recovery/growth

Research Team

- Patrick Wood, Equity Analyst

J.P. Morgan — **Price Target: $420**

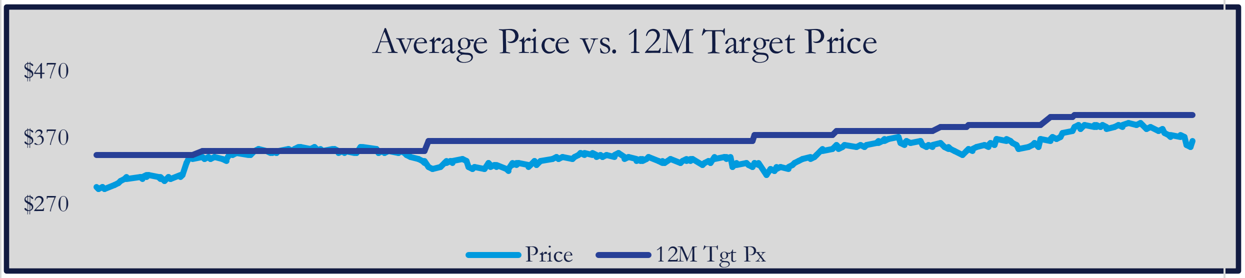
Rating: BUY

- We remain bullish on Stryker here with potential double-digit growth on tap this year and no shortage of tailwinds heading into next year between recent M&A set to contribute ~$300M in sales) and new launches like Pangea, LifePak, and Mako.
- Even with guidance on sales and earnings moving to the upper end of previous ranges, we continue to view these as highly achievable targets that should set up a final beat to close out the year

Research Team

- Robbie Marcus, North America Equity Research
- Allen Gong, North America Equity Research

Price Analysis



Consensus Rating

BUY:	75.00%
HOLD:	25.00%
SELL:	0.00%

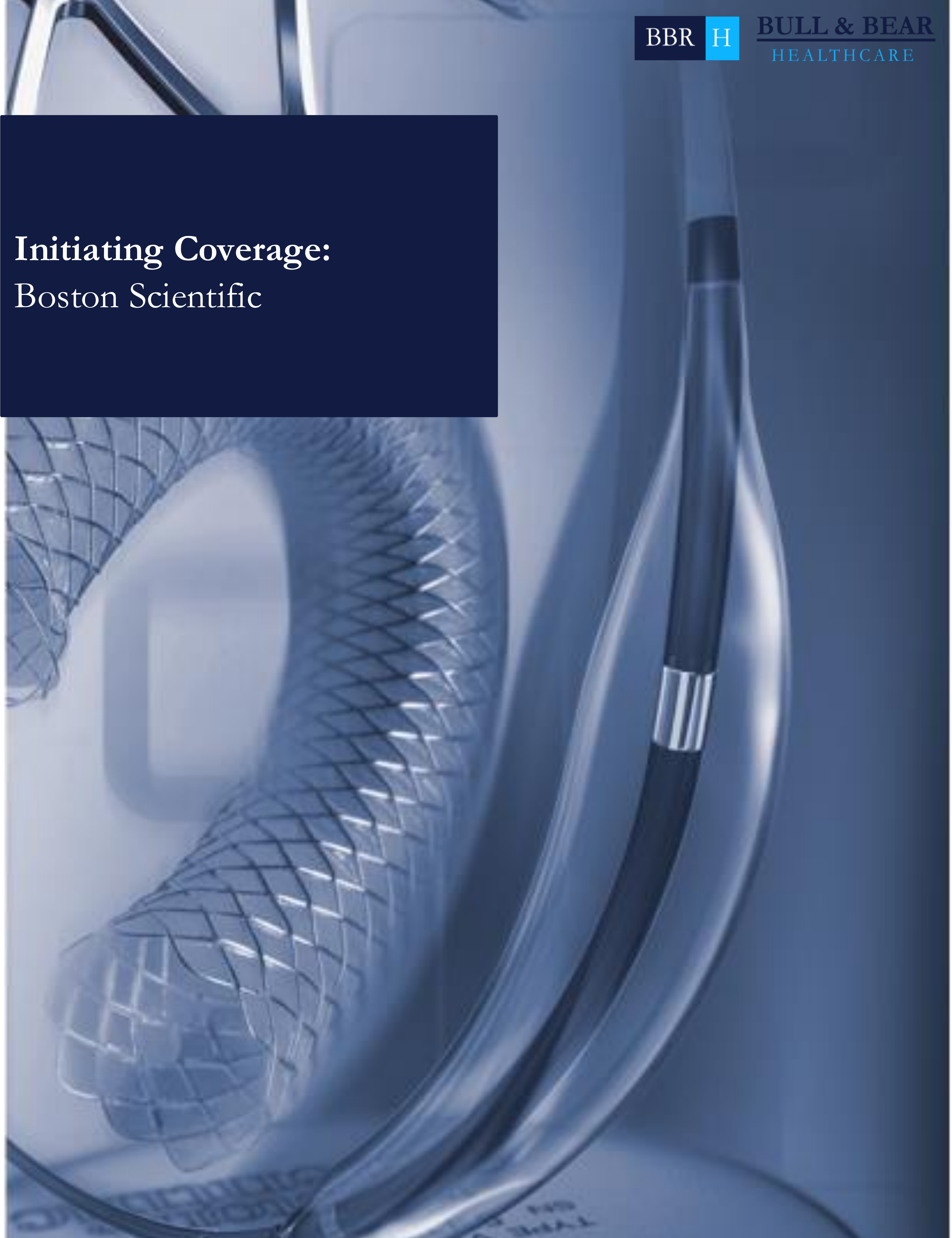
Comparative Analysis

Average: $420.87

Comparative Analysis	Date	Analyst	Firm	Rating
$445	12/2/2024	Patrick Wood	Morgan Stanley	Overweightrt
$450	11/28/2024	Joanne Wuensch	citi	Buy
$410	11/04/2024	David Toung	ARGUS	Buy
$382	10/31/2024	David Roman	Goldman Sachs	Neutral
$420	10/31/2024	Robbie Marcus	J.P.Morgan	Overweight
$370	10.31/2024	Danielle Antalffy	UBS	Neutral
$388	10/31/2024	Steven Lichtman	OPPENHEIMER	Buy
$415	10/31/2024	Matthew Taylor	Jefferies	Buy

Sources: Bloomberg, Pitchbook, Respective Company Websites

BULL & BEAR HEALTHCARE



Initiating Coverage: Boston Scientific

BOSTON SCIENTIFIC (BSX)

Recommendation:	BUY	P/E	47.95x
Price Target:	$105.29	EV ($Bn)	140.9
Current Price:	$91.04	EV/EBITDA	28.42x
52-Wk Range:	$55.44 – $91.04	Beta	0.83
Market Cap ($Bn)	131.9	EPS	1.88
Shares Outstanding (Mn):	357.3		

Company Overview

BSX is the third largest medtech company by market cap behind ABT and SYK. It operates through two segments: Cardiovascular and MedSurg. The cardiovascular segment makes up ~60% of total revenue and is broken down into cardiology equipment around 45% of revenue like catheters and guidewires and peripheral interventions (15%) to treat various forms of cancer. The MedSurg segment includes endoscopy (15%) to treat pulmonary and gastrointestinal conditionals, urology (15%) for kidney stones, erectile disfunction, and prostate cancer, and neuromodulation (5%) which is devices for chronic pain management. BSX operates globally across 140+ countries, but 60% of its revenue is generated in the US. The five primary strategic imperatives include category leadership, expansion into high growth adjacencies, drive global expansion, fuel growth, and develop key capabilities. BSX is also expanding their growth into emerging markets.

Latest News

- Announced acquisition of Intera Oncology on Nov. 26, 2024, that will provide two FDA approved enhancements: floxuridine, a chemotherapy drug, and the Intera 3000 Hepatic Artery Infusion Pump, which treats liver tumors. Transaction is expected to be completed by 1H2025.
- Positive OPTION results set the stage for WATCHMAN label expansion offered at the American Heart Association on Nov. 16, 2024 with the potential to triple TAM to ~$5B and accelerate growth profile by ~20%. Exceeded expectation on safety and better results in both endpoints.
- Closes acquisition of Axonics (AXNX) at $71/per share at equity value of $3.7B and enterprise value of $3.3B on Nov. 15, 2025. Immaterial to adjust EPS in '24 and '25.
- Set to acquire Cortex Inc. For development on diagnostic mapping solutions that identify triggers of atrial fibrillation that affects 38M people globally. Announced on Nov. 4, 2024 and is expected to close by 1H2025.

Investment Thesis

We see a strong potential upside in investing in BSX of 15% based on our target price of $105.29. BSX is focusing on broadening their products through strategic acquisitions. Its renown product innovation and pipeline is demonstrated across all business segments. Further, the healthcare sector is strategically positioned from tailwinds such as an aging population, increased chronic diseases, and technological innovation. BSX also has a strong global presence, operating in 140 countries with a wide range of customers like hospitals and outpatient facilities. The company has demonstrated stability in its cash flows and earnings even during economic downturns, with favorable macro and company characteristics and developments in the long term.

Street View

The vast majority of analysts currently list Boston Scientific with a buy rating, while only 12.5% recommend holding and none recommend selling. These reports are supported by impressive revenue and share price growth of 16% and 58%, respectively, over the trailing twelve months, while EBITDA margins have remained strong at 29%. EPS guidance for Q4 is up 20%, following three straight quarters in which the company outperformed estimates. Mizuho has raised its price target from $100 to $110, calling BSX's share pullback an opportune time for greater investment. Still, these ratings are tempered by firms such as Jefferson Research, which gives BSX a hold rating, citing weak cash flow levels and a fragile valuation supported by an above-average P/E ratio.

Sources: Bloomberg, Boston Scientific Corporation website, Jefferson Research, Mizuho Group

STREET PERSPECTIVE - BSX

Boston Scientific

Select Commentary

CFRA Research

Price Target: $104
Rating: BUY

- Forecasts 13% growth rate over the next two years, attributing an acceleration in sales to a pickup in elective procedures as Covid-19 continues to slow
- Expects the acquisition of Axonics—likely to close in Q4 2024—to boost top-line revenue growth due to increased breadth of products
- Notes their extensive product pipeline and recent offerings as pivotal drivers, claiming BSX's EPS will outpace its competitors in the coming years

Research Team

- Paige Meyer, Senior Equity Research Analyst

Morningstar Research

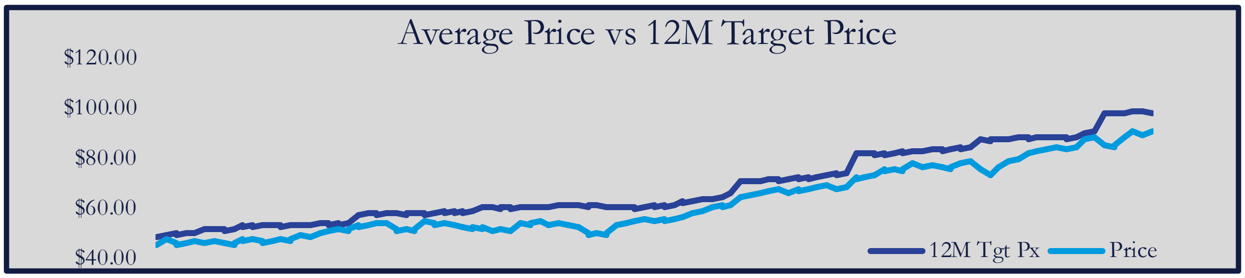
Price Target: $84
Rating: HOLD

- Strong Q3 sales are tempered with near-term product launches, requiring investment that could make or break profit margins
- Attributes BSX's strong market position to its network on intellectual property consisting of numerous patents and good practitioner relationships
- Expects post-pandemic efficiency enhancements to grow operating margin, peaking at 27% in 2028

Research Team

- Debbie S. Wang, Senior Equity Analyst

Price Analysis



Consensus Rating

BUY:	87.5%
HOLD:	12.5%
SELL:	0%

Comparative Analysis

$105.29

Comparative Analysis	Date	Analyst	Firm	Rating
$110	11/26/2024	Anthony Petrone	MIZUHO	Outperform
$100	11/25/2024	Dr. Joshua Jennings	TD Cowen, a division of TD Securities	Buy
$95	11/20/2024	Matthew O'Brien	PIPER SANDLER	Overweight
$98	11/18/2024	Lawrence Biegelsen	WELLS FARGO	Overweight
$100	11/17/2024	Patrick Wood	Morgan Stanley	Overweight
$101	11/17/2024	Jayson Bedford	RAYMOND JAMES	Strong Buy
$100	11/17/2024	Frederick A Wise	STIFEL	Strong Buy
$102	10/24/2024	David H Roman	Goldman Sachs	Buy

Sources: Bloomberg, CFRA Research, Morningstar

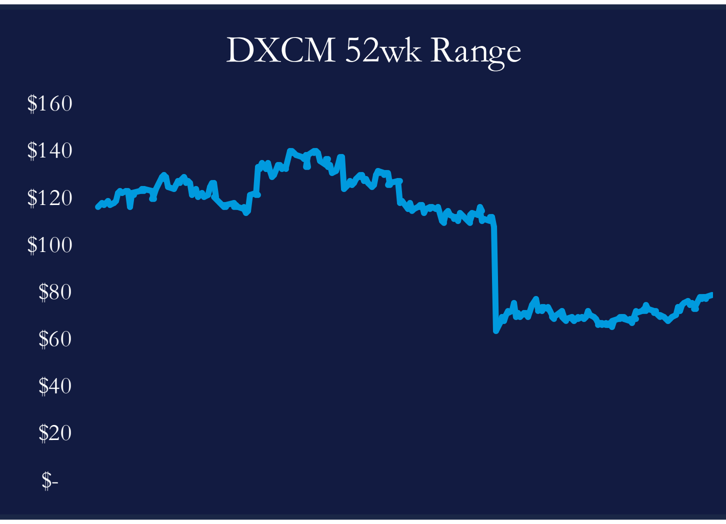
BBRH BULL & BEAR HEALTHCARE

Initiating Coverage:
Dexcom, Inc.

BBR H **BULL & BEAR** HEALTHCARE

DEXCOM, INC. - DXCM

Recommendation:	**BUY**	P/E	42.17x
Price Target:	**$ 98.80**	EV ($Bn)	**30.46**
Current Price:	**$ 77.94**	EV/EBITDA	**27.13x**
52-Wk Range:	**$62.34 – $142.00**	Beta	**0.92**
Market Cap ($Bn)	**30.46**	EPS	**1.78**
Shares Outstanding (Mn):	**357.3**		



Company Overview

Founded in 1999 and headquartered in San Diego, California, Dexcom is a pioneer in providing real-time glucose data through wearable medical devices. They are a global leader in the glucose biosensing industry. The company's flagship product, the Dexcom G7, is their most powerful continuous glucose monitoring (CGM) system. Dexcom G7 drives approximately 75% of Dexcom's revenue, while the remaining 25% coming from its legacy CGM systems, accessories, and subscription services. CGM systems are an alternative to traditional blood glucose metering, and they allow users to see real-time glucose feedback. Dexcom's innovative technology has transformed diabetes management with the G7 being a small, discreet design that also allows users to track their glucose via smartwatch rather than on a phone. In recent quarters, DXCM has reported robust revenue growth that is largely driven by the company's subscription-based sensor/accessories sales.

Product Pipeline

- Dexcom announced acquisition of Intera Oncology on Nov. 26, 2024, that will provide two FDA approved enhancements: floxuridine, a chemotherapy drug, and the Intera 3000 Hepatic Artery Infusion Pump, which treats liver tumors. Transaction is expected to be completed by the first half of 2025.
- Dexcom and ŌURA have partnered to integrate Dexcom's glucose biosensors with the Oura Ring's biometrics, offering users a comprehensive view of their metabolic health. This collaboration aims to help users make informed lifestyle choices by linking glucose levels with metrics like sleep, stress, and activity, with the first app integration expected in early 2025.
- Dexcom is working to provide products that are better integrated with insulin pumps from Insulet and Tandem. This would allow for automatic insulin delivery using Dexcom's CGM systems.

Street View

Dexcom has faced a challenging year with a total YTD return of -43.95%. The second and third quarters of 2024 were especially not strong. In Q3 2024, revenue grew modestly by 2% to $994 million, driven by a 12% increase in international sales. However, U.S. revenue declined by 2% due to slower new customer starts and increased rebate eligibility. Analysts suggest that the rising popularity of GLP-1 weight loss drugs could also negatively impact demand for CGM systems, contributing to Dexcom's poor performance in 2024. Dexcom released the first FDA approved over-the-counter CGM, Stelo, in August 2024. This product promises growth for Dexcom and has helped to improve investor confidence.

Investment Thesis

Dexcom is a global leader in glucose biosensing, and they clearly have a commitment to innovation. This is demonstrated through their acquisition of Inertia, which will diversify their offerings beyond glucose monitoring. Dexcom is also making many strategic partnerships within the glucose monitoring industry via OURA, Insulet, and Tandem. This follows the trend of industry leaders consolidating their operations and engaging in these strategic partnerships ensures that Dexcom remain a leader and not fall behind. Dexcom has additionally displayed modest revenue growth and there is clearly strong global demand for their products. Despite slowing in the US market, Dexcom is positioned well for future growth.

Sources: Bloomberg, Pitchbook, Respective Company Websites, Yahoo Finance

STREET PERSPECTIVE - DXCM

Dexcom Inc.

Select Commentary

JP Morgan — **Price Target: $85** — **Rating: NEUTRAL**

- Dexcom has significant long-term growth opportunities, but they also have near-term challenges such as uncertain sustainability in core business growth and low investor confidence in management.
- The launch of Stelo promises significant opportunity and it works to rebuild investor confidence.
- Price target values shares at 33x 2026 EPS, a premium to other high-growth MedTech companies.

Research Team

- Robbie Marcus, North America Equity Research

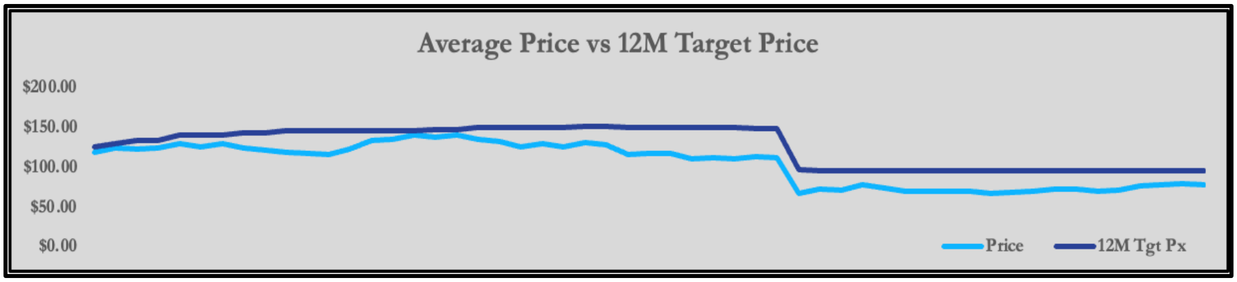
Wells Fargo — **Price Target: $90** — **Rating: BUY**

- Dexcom G7 Hospital was on the list of CMS new tech add-on payment (NTAP) applicants and is likely to get approval due to breakthrough status from the FDA.
- Forecasts a ~$1B market opportunity in the hospital setting for the CGM market.
- Catalysts such as CGM for non-insulin users, expanding coverage of CGM, and declining pricing headwinds expected to accelerate revenue.

Research Team

- Larry Biegelsen, Equity Analyst

Price Analysis



Consensus Rating

BUY:	75.0%
HOLD:	25.0%
SELL:	0.0%

Comparative Analysis ($98.80)	Date	Analyst	Firm	Rating
$86.00	11/25/24	Lee Hambright	BERNSTEIN SOCIETE GENERALE GROUP	Outperform
$90.00	11/24/24	Larry Biegelsen	WELLS FARGO	Overweight
$85.00	11/22/24	Robbie Marcus	J.P.Morgan	Neutral
$75.00	11/10/24	Patrick Wood	Morgan Stanley	Equal weight
$94.00	10/25/24	Debbie Wang	MORNINGSTAR	Buy
$99.00	10/25/24	Steven M. Lichtman	OPPENHEIMER	Outperform
$100.00	10/25/24	Matthew Taylor	Jefferies	Buy
$115.00	10/25/24	Shagun Singh Chadha	RBC	Outperform

Sources: Bloomberg, Pitchbook, Respective Company Websites