

Medtech employment stable despite harsh environment

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After the surprisingly rosy state of medtech employment last year, it is encouraging to see a similar pattern this year. Only three of the top 15 medtech companies saw a drop in their headcount in 2013, and two of those drops were due to the companies hiving off their pharmaceutical operations. Big medtech seems to be getting purer.

And in fact, had those two companies – Abbott Laboratories and Covidien – held on to their pharma units, both companies would have seen a net increase in staffing levels. This leaves Boston Scientific stark and alone as the only one of the top 15 medtech companies by market cap to have cut its staff without a specific narrowing of focus.

Among the top 15, Baxter International has increased its headcount by the greatest proportion in the past year, and it did most of it with a medtech acquisition. Its \$4bn purchase of Gambro was the biggest deal to close in 2013, and netted it an additional 8,000 employees. Its workforce increased by a net 10,000 over the year, though, and its other 2013 acquisition – of tiny Flowsense Medical – cannot account for this. The company has grown organically as well, though these jobs may have been added in its biopharma or generic drugs arms.

Employee numbers of the top 15 medtech companies by market cap

Company	Market Cap YE 2013 (\$bn)	Number of Employees – Year End						% change 2008-13	% change 2012-13
		2008	2009	2010	2011	2012	2013		
Johnson & Johnson	258.3	118,700	115,000	114,000	117,900	128,000	128,100	8%	0%
Abbott Laboratories	59.3	69,000	73,000	90,000	91,000	91,000	69,000 ¹	0%	(24%)
Baxter International	37.8	48,500	49,700	48,000	48,500	51,000	61,000	26%	20%
Essilor International	16.6	34,320	34,759	38,112	48,700	50,688	55,129	61%	9%
Medtronic	57.1	37,665	43,000	45,000	45,000	46,000	49,000	30%	7%
Covidien	29.9	41,700	41,800	41,500	41,300	43,000	38,500 ²	(8%)	(10%)
Becton Dickinson	20.8	28,277	29,116	28,803	29,369	29,555	29,979	6%	1%
Stryker	28.4	17,594	18,582	20,036	21,241	22,010	25,000	42%	14%
Boston Scientific	15.9	24,800	26,000	25,000	24,000	24,000	23,000	(7%)	(4%)
St. Jude Medical	17.9	14,000	14,000	15,000	16,000	15,000	16,000	14%	7%
C. R. Bard	10.4	11,000	11,000	11,700	12,100	12,200	13,000	18%	7%
Smith & Nephew ³	13.2	9,757	9,764	10,172	10,743	10,477	11,036	13%	5%
Zimmer	15.8	8,500	8,200	8,800	8,700	9,300	9,500	12%	2%
Coloplast	12.4	7,567	7,130	7,284	7,372	7,875	8,563	13%	9%
Intuitive Surgical	14.7	1,049	1,263	1,660	1,924	2,362	2,792	166%	18%

¹ 94,000 if AbbVie included ² 44,000 if Mallinckrodt included ³ Numbers for Smith & Nephew are averages for the year

Source: EvaluateMedTech

It will lose weight in the future: Baxter intends to spin off its biotechnology operations and its vaccines business. However, this will not affect the jobs numbers until the divestments conclude in calendar 2015.

That said, growth in employment does not necessarily correspond to a healthy company. There is no disguising the fact that the fastest growing of the larger companies had a rather turbulent year. Intuitive Surgical has been the subject of falling sales and reports that its suite of Da Vinci robotic surgery systems are less safe and certainly less cost-effective than standard operations performed by human surgeons.

Intuitive's share price crashed mid-year following disappointing sales. Nonetheless the company was, for the second year running, growing at the fastest rate in the top 15 – and without performing any acquisitions. Intuitive was simply hiring, and hiring fast. The firm brought in 28 new salespeople in 2013, an increase of 30% – faster than its overall workforce growth rate of 18% – perhaps feeling that by increasing its salesforce it would be able to put its revenues back on track.

Top 10 headcount increases of the last year

By percentage of staff added			By number of staff added		
Company	% added	2013 headcount	Company	Number added	2013 headcount
Baxano Surgical	57%	140	Baxter International	10,000	61,000
RTI Surgical	46%	1,100	Essilor International	4,441	55,129
Trinity Biotech	45%	571	Medtronic	3,000	49,000
HeartWare	44%	569	Stryker	2,990	25,000
AtriCure	39%	320	St. Jude Medical	818	16,000
Cerus	35%	115	C. R. Bard	800	13,000
MiMedx Group	34%	222	Coloplast	688	8,563
Cepheid	27%	1,200	Sonova	577	9,529
Baxter International	20%	61,000	Smith & Nephew*	559	11,036
NxStage Medical	19%	3,200	NxStage Medical	500	3,200

**Numbers for Smith & Nephew are averages for the year*

Source: EvaluateMedTech

The next fastest growing top 15 company in 2013 was Stryker, but in contrast to Intuitive, here acquisitions played a large part. The orthopaedics group bought trauma specialist Trauson and surgical robotics firm Mako Surgical, and added nearly 3,000 new workers in the process. The company is right to seek scale in a highly consolidated marketplace, and the forthcoming \$13.4bn megadeal between Zimmer and Biomet will only add to this environment.

Stryker and fellow top 15 ortho firm Smith & Nephew would both be well advised to either grow rapidly through acquisitions or look for a buyer – indeed a scenario in which the former buys the latter has often been mooted, though not by the companies themselves. The big trend among the top 15 was not

acquisitions – 2013 was a pretty dismal year for mergers – but divestments of drug units. Slimmer of the year was Abbott, losing a quarter of its workforce in the formation of the AbbVie pure-play pharma company. Now with 69,000 employees, the company is the same size as it was five years ago. It would be gratifying to see it expand from now on as fast as it did between 2008 and 2012.

Covidien followed in Abbott's footsteps in May, spinning off its Mallinkrodt pharma business and 10% of its employees with it. Covidien may not appear in this analysis next year. Should its \$43bn acquisition by Medtronic – the largest such transaction in the industry's history – conclude in 2014, its current 38,500-strong headcount will swell the ranks of the latter company and almost certainly push it from its current fourth place in the table to second.

Johnson & Johnson is left as the only company in the top 15 to still have significant pharma operations. It is possible that J&J might follow the demerger trend, splitting its pharma business off entirely in the manner of Abbott or Covidien – or, in future, Baxter – but the company has been a conglomerate for almost all of its 128-year history, and may well be content to remain so.

Moreover the usual reason for these splits is to make the value of the separate units clearer, and J&J's medtech, pharma and consumer health segments, which make up 40%, 39% and 21% of its revenues respectively, are already unusually distinct.

The company did spin off its diagnostics arm, losing more than 4,500 employees in the process, but that deal closed in 2014 and therefore does not contribute to this analysis.

Top 10 headcount increases of the last five years

By percentage of staff added			By number of staff added		
Company	% added	2013 headcount	Company	Number added	2013 headcount
Exact Sciences	2,450%	102	Essilor International	20,809	55,129
MiMedx Group	500%	222	Carl Zeiss	11,563	24,623
HeartWare	413%	569	Medtronic	11,335	49,000
NuVasive	206%	1,358	Johnson & Johnson	9,400	128,100
Cytomedix	167%	40	Alere	9,300	17,600
Intuitive Surgical	166%	2,792	Stryker	7,406	25,000
NxStage Medical	154%	3,200	Sonova	4,190	9,529
Endologix	154%	482	Getinge	3,579	15,183
Align Technology	145%	3,420	Mindray Medical International	2,400	7,900
Sequenom	130%	570	Edwards Lifesciences	2,400	8,600

Source: EvaluateMedTech

If a company can grow organically, maybe there is also such a thing as organic shrinkage. Without selling or spinning off a specific division, Boston Scientific cut 1,000 jobs last year. It is important to note, however, that this analysis just covers top-line numbers, so Boston may not be the only top 15 company to

have cut significant staff volume: others could have done so, but hired similar numbers of workers in other departments. Larger firms in particular change their employment structures fairly frequently, and it is not always possible to capture these changes.

The divestment trend means that the top 15 decreased their headcounts overall, albeit by less than 1%, in 2013. Excluding the pharma spinouts of Abbott and Covidien, but including all strictly medtech acquisitions and divestments, the cohort grew at an average of 6%.

Smaller companies put this growth rate in the shade, as a look at the top ten growers of the last year in percentage terms shows. With the exception of Baxter, these companies have on average fewer than 900 employees, and an average market cap of around \$1bn. The leader, tiny Baxano Surgical, ended 2013 with 140 workers and a market value of just \$47m. It welcomed 51 new employees through its doors last year, and thus expanded faster percentagewise than anyone else.

This effect is magnified over time. Diagnostics firm Exact Sciences has been hiring recently in anticipation of US and EU launch of its colorectal cancer test, and had a headcount of 102 at the end of last year. Back in 2008, though, it had just four staff members, giving it a five-year growth rate of nearly 2,500%.

As might be expected, the top ten increasers of the last five years by percentage are smaller than those in the one-year table, with fewer than 1,300 employees on average. Interestingly, though, they are bigger in terms of market value, being worth an average of \$2.6bn. Most have experienced large increases in their market cap over the past five years as shareholders buy in to the same promise that prompted the increase in headcount.

Top 10 headcount reductions of the last five years

By percentage of staff cut			By number of staff cut		
Company	%	2013 headcount	Company	Number	2013 headcount
NeuroMetrix	(68.4%)	30	Covidien	(3,200)	38,500
Orthofix International	(37.3%)	889	Teleflex	(2,800)	11,400
Stereotaxis	(32.8%)	123	Boston Scientific	(1,800)	23,000
Wright Medical Group	(28.2%)	898	Invacare	(700)	5,400
Teleflex	(19.7%)	11,400	Orthofix International	(529)	889
Trinity Biotech	(19.7%)	571	Agfa-Gevaert	(377)	11,775
Hansen Medical	(17.8%)	171	Wright Medical Group	(352)	898
Thoratec	(14.8%)	1,030	Thoratec	(179)	1,030
Synergetics USA	(14.7%)	336	Trinity Biotech	(140)	571
Staar Surgical	(13.2%)	335	Symmetry Medical	(128)	2,560

Source: EvaluateMedTech

There is a huge difference in the nature of the top growers by percentage – tiny companies often with a single product – and the top growers by volume – multinational giants. Not so the top 10 companies that reduced their workforce, where there is much overlap. Data compiled by EvaluateMedTech shows that only 21 medtech firms were net reducers in 2013, so naturally there is some overlap.

In terms of volume, the company to shed most staff over the last five years, with the exception of Covidien, is orthopaedic devices and instruments specialist Teleflex. The company has been implementing a restructuring which has involved combining two of its European distribution centres and consolidating four of its North American distribution sites into a single facility. This has meant bidding sayonara to 200 employees in 2013, but that did not prevent the firm adding to its management team.

A similar strategy is being followed by NeuroMetrix, top of the slimmers chart by percentage. In 2011, the company announced a restructuring which involved shifting distribution to independent sales reps among other things. The company has lost only 65 employees since the end of 2008 – eight in 2013 – but from a starting point of 95, this is significant. It is the only company of the 99 in this analysis to have lost more than half its employees over the last five years.

Others, such as Thoratec, have seen their employee numbers fall due to the sale of subsidiaries.

The medtech industry had a difficult 2013, with a downturn in M&A activity, a sharp drop in US device approvals and ongoing pressures on pricing forcing companies to find efficiencies anywhere they could.

Despite this, the story in medtech employment over the course of 2013 is one of slow and steady growth, enlivened by a handful of dramatic mergers and divestments. But this story is going to change in the coming years as even bigger mergers and spinouts produce greater peaks and troughs. Fasten your seatbelts, it's going to be a bumpy ride.

To contact the writer of this story email Elizabeth Cairns in London at elizabethc@epvantage.com or follow @LizEPVantage on Twitter

Methodology notes:

- EvaluateMedtech sources employment figures from company annual reports (Form 10-Ks). The analysis covers top-line numbers only.
- Japanese companies were excluded from this analysis as they work to different reporting periods and 2013 data are not yet available.
- This report does not include pure-play biotech or pharmaceutical companies.
- Companies that provided limited or patchy disclosure on job numbers were also excluded, which naturally limited the analysis to a largely US and Europe-based cohort of listed groups. In total, the analysis covered 99 companies.



Editorial team

Lisa Urquhart
Editor
LisaU@epvantage.com
@LisaEPVantage

Jacob Plieth
Senior Reporter
JacobP@epvantage.com
@JacobEPVantage

Amy Brown
News Editor
AmyB@epvantage.com
@AmyEPVantage

Elizabeth Cairns
Medtech Reporter
ElizabethC@epvantage.com
@LizEPVantage

Jonathan Gardner
Deputy News Editor
JonathanG@epvantage.com
@JonEPVantage

Joanne Fagg
Editorial Assistant
JoanneF@epvantage.com
@JoEPVantage



Evaluate – Headquarters – Evaluate Ltd, 11-29 Fashion Street, London E1 6PX United Kingdom
Tel: +44 (0)20 7377 0800 – Fax: +44 (0)20 7539 1801

Evaluate – North America – EvaluatePharma USA, Inc., 15 Broad Street, Suite 401, Boston, MA 02109 USA
Tel: 1-617 573-9450 – Fax: 1-617 573-9542

Evaluate – Japan – EvaluatePharma Japan KK, Tokyo, Japan
Tel: +81 (0) 80 1164 4754

www.evaluategroup.com

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