



# Millennium Research Group Analyst Brief: Covidien's Vascular Ambitions



A Decision Resources, Inc. Company



# COVIDIEN: FUTURE KING OF VEINS?

On May 8, 2009, Covidien announced that it was purchasing varicose vein treatment company VNUS for \$440 million to solidify its growing vascular device franchise. MRG forecasts that the acquisition will allow Covidien's vascular devices business to top \$1 billion in annual revenue by 2013. VNUS made \$101 million in revenue in 2008 almost exclusively through the sales of its catheter for endovenous radiofrequency ablation (ERFA) of incompetent veins.

The deal works well for both companies, with Covidien gaining a strong

platform in a new therapeutic market, and VNUS gaining a global marketing powerhouse with links to the relevant physician groups (interventional radiologists and vascular surgeons). One question that remains unanswered, however: to what extent will Covidien be able to drive the growth of ERFA? As can be seen in the graphs below, ERFA makes up less than a quarter of procedures in the US, and is almost nonexistent in Europe. The MRG forecast assumes a conservative answer to this question; however, the acquisition

could be more lucrative if Covidien were to significantly increase ERFA's share of total procedures, particularly in Europe.

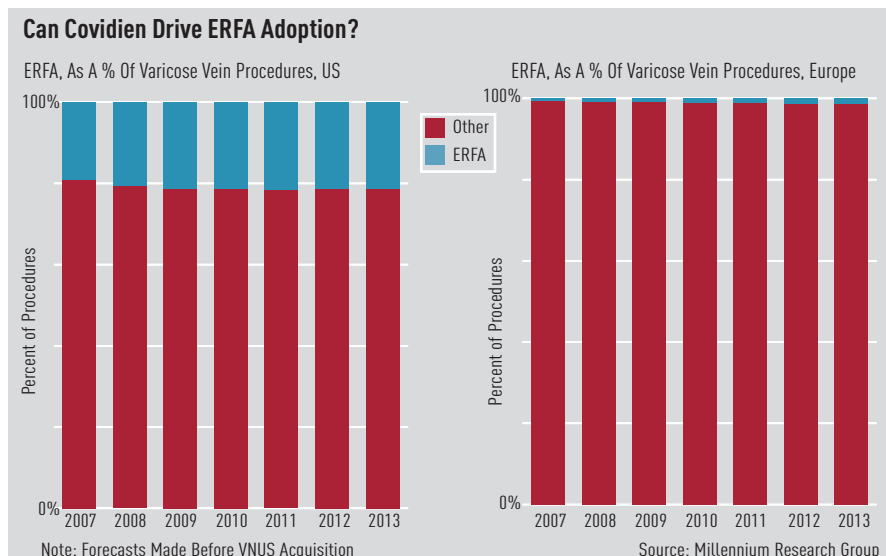
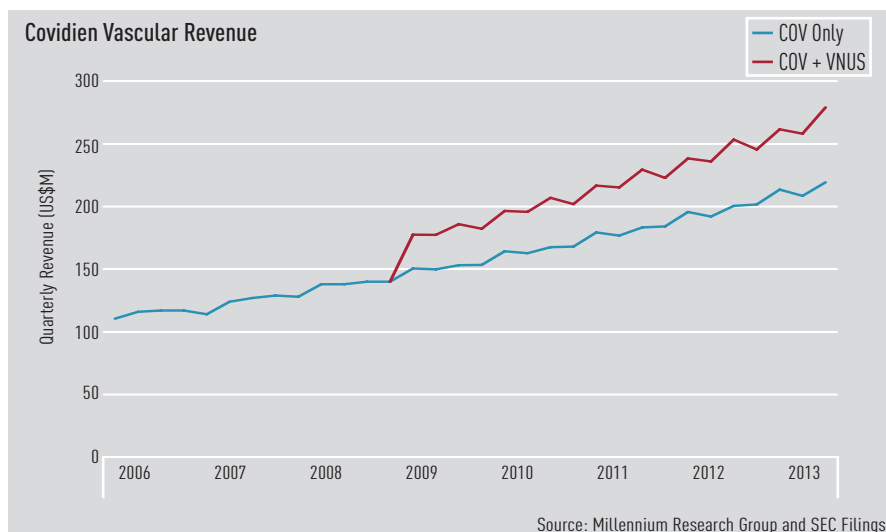
## A Venous Focus?

The VNUS deal marked the second vascular-related acquisition in 2009 for Covidien, which also purchased privately-held Bacchus Vascular in a quiet move earlier this year. The acquisitions signal a new focus from Covidien on building its modest vascular devices business, which grossed over \$500 million in 2008, but ranked well behind market behemoths like Boston Scientific, Medtronic, and Abbott Vascular.

Unlike the aforementioned market leaders, Covidien is taking a different strategy by not focusing on the mature heart-related markets (cardiac rhythm management and interventional cardiology). Instead, Covidien is focusing on what it considers to be the underserved and forgotten side of the vasculature: the venous system. It has targeted two areas of venous problems for its strategic focus:

- Deep vein thrombosis (DVT)/pulmonary embolisms (PE)
- Chronic venous insufficiency

This targeted focus leverages Covidien's existing vascular business, which is primarily focused on compression products for mechanically treating DVT, and on its SharpSafety needle and syringe products (which cross-over in all vascular markets). This pres-



Major Cardio Companies' 2008 Revenues	
Medtronic Vascular	\$7.5B
Boston Scientific	\$6.3B
St. Jude Medical	\$4.3B
Cordis (J&J)	\$3.1B
Abbott Vascular	\$2.2B
<b>Covidien</b>	<b>\$0.5B</b>

Source: SEC Filings

ence allows the new vascular strategy to springboard off of a strong base with interventional radiologists and vascular surgeons. Because the company's product portfolio is currently limited in size, the first step is to grow through acquisitions. Both recent acquisitions further the company's declared goals.

In addition to its venous focus, Covidien also is looking at peripheral vascular disease (PVD) as a third area of focus. Notably absent from Covidien's portfolio is a presence in this market, which could be next on the company's list (although its needle products do provide some exposure). The exact focus of the company in the space remains unclear: Covidien could pursue a strategy of buying small one-product firms (e.g. Endologix, a small California company with a stent graft for treating abdominal aortic aneurysms), or aim for a mid-size buy with a suite of products (e.g. ev3, a peripheral and neurovascular firm). It remains to be seen how Covidien will move forward, but industry observers should not be surprised by a 2009 Covidien entry into the PVD marketplace.

2009 Covidien Vascular Acquisitions				
Company	Date	Price	Main Product	Strategic Rationale
Bacchus Vascular	3/6/09	Undisclosed	Trellis® Peripheral Infusion System - a fully disposable pharmaco-mechanical interventional device for targeted drug delivery, maceration of the thrombus, and aspiration of the emboli in DVT	Builds off existing compression product line for DVT prophylaxis/treatment, and fits into wider venous strategy.
VNUS	5/8/09	\$440M	Closure® System - The only endovenous radiofrequency ablation catheter on the market.	Provides entry into the varicose vein treatment market (US \$150-200M; 12-15% CAGR) with a highly regarded product. VNUS recently successfully defended its intellectual property on its technology.

### Related Multiclient Market Research

- US Markets for Varicose Vein Treatment Devices 2009
- European Markets for Varicose Vein Treatment Devices 2009
- Opportunities in Brazil: Varicose Vein Treatment Device Market 2009
- European Markets for Peripheral Vascular Devices 2009
- US Markets for Clot Management Devices 2009 *Coming Soon*
- US Markets for Peripheral Vascular Devices 2009 *Coming Soon*

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