

Innovation on Sale? Opportunities in Medical Technology

By Glenn Cunningham, Partner

The health care industry, and medical technology companies in particular, stand to benefit from one of the most powerful demographic shifts of our time: an aging population.

In the United States, the number of adults over 65 is projected to grow nearly five times faster than the broader population, rising from 19% of the population today to 25% by 2065. Similar trends are unfolding globally (**Figure 1**).

The drivers are straightforward: lower fertility rates, longer lifespans, the aging of the Baby Boomer generation, and slowing immigration. Together, they create a durable backdrop for demand across the medtech ecosystem, from diagnostics and imaging to surgical tools and long-term care. That strength has long supported premium valuations across the medical technology landscape.

Mapping the Opportunity

Despite these structural tailwinds, valuations in health care equipment and services have not kept pace with the broader market's re-rating (**Table 1**). Tariffs, regulatory friction, and uneven execution have weighed on results, creating a disconnect between long-term fundamentals and short-term sentiment.

To test the opportunity, we recently traveled through five European countries and met with more than 25 companies across the health care value chain. Through these discussions, we observed that companies are placing renewed emphasis on execution and accountability, innovation remains vibrant, and the AI opportunity is significant.

Supply Chain Discipline

The COVID-19 pandemic exposed weaknesses in supply chains, leading to costly delays and market share losses. In response, companies are now managing supply chains with far greater discipline, which should translate into more resilient and efficient businesses. We noted that companies that have struggled in recent years, such as Smith & Nephew and Philips, are now undergoing cultural shifts toward greater accountability, more streamlined decision-making, and stronger alignment between performance and incentives. These changes take time but lay the groundwork for lasting improvement.

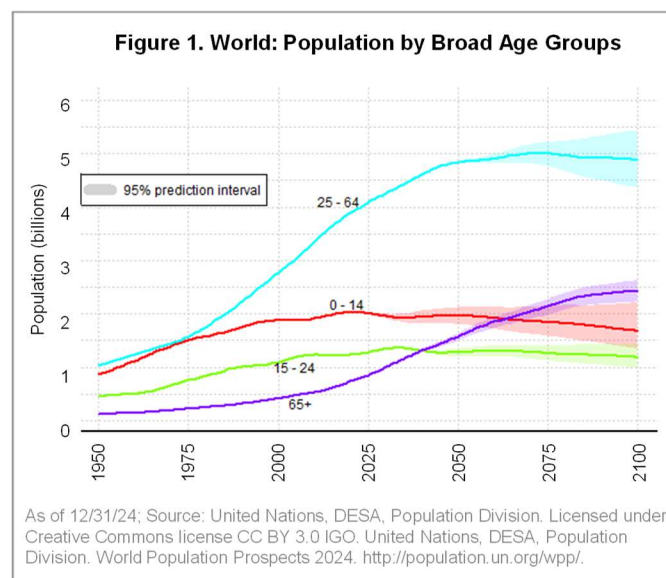


Table 1: Health Care Equipment & Services Valuations		
Price/Earnings	MSCI World Index	Health Care Equipment & Services
Trough	15.3	20.8
Current	25.2	23.2
10-Year Average	20.6	24.8

As of 10/31/25; Source: FactSet, MSCI.



Glenn Cunningham, health care & technology analyst at Altrinsic, on the road in Europe.

Vibrant Innovation

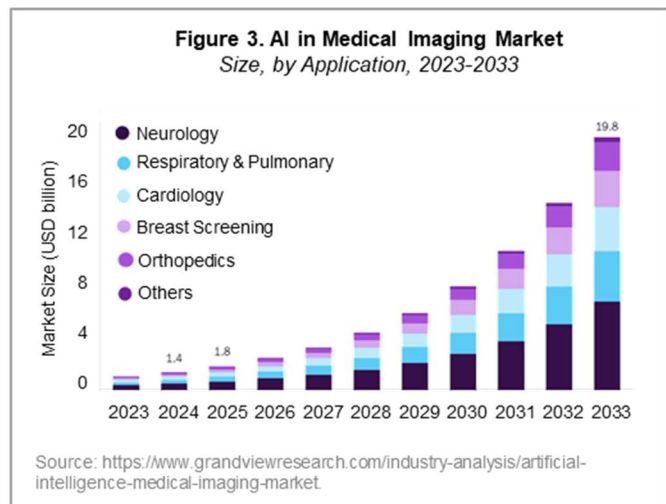
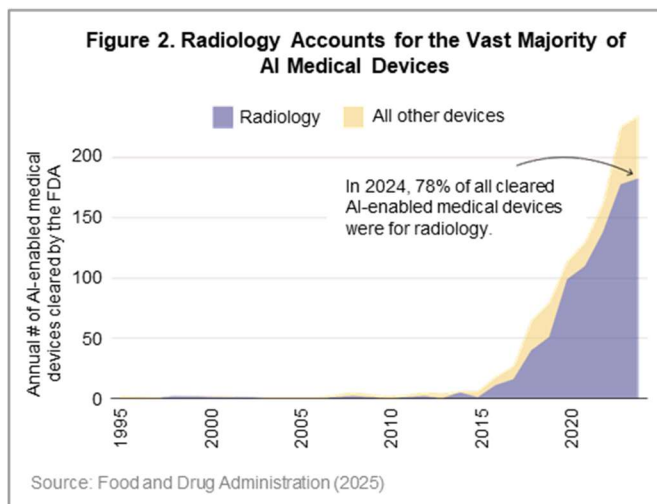
Growth in medical technology depends on a culture of innovation that improves outcomes for patients and efficiency for providers. The pace of progress remains strong.

Siemens Healthineers' photon-counting CT and Philips' helium-free MRI are examples of technologies that create value for patients, hospitals, and manufacturers alike. Diagnostic innovation is also accelerating, with new blood-based tests aiming to detect Alzheimer's at earlier stages and a vibrant ecosystem emerging around cancer diagnostics. These advances are opening new markets and creating faster feedback loops between clinicians and researchers. This is the kind of virtuous cycle that drives lasting improvements in care.

Increasingly, we are seeing more innovation in algorithms and software rather than just hardware. This development matters because it shifts business models toward higher margin, recurring revenue. As we have seen in other industries, such as industrial automation, such a shift can be powerful, driving higher returns on invested capital and supporting higher valuation multiples over time. For an industry still navigating reimbursement and regulatory complexity, this evolution offers a meaningful tailwind.

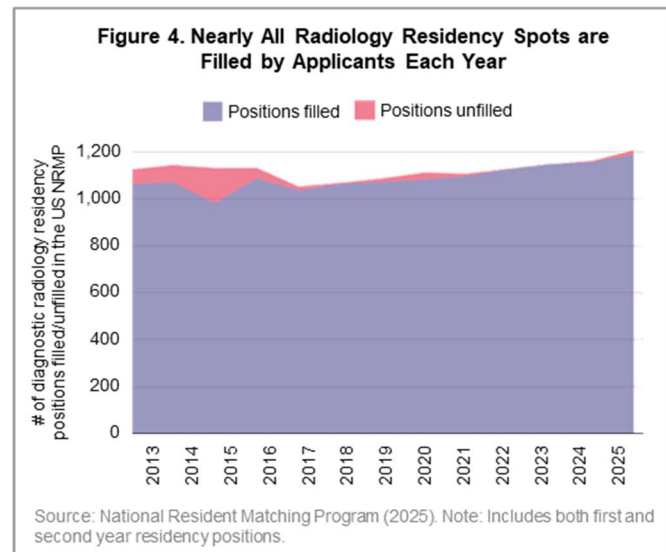
AI in Medtech

Few industries have clearer use cases for AI than medical technology. Radiology alone accounts for 70% of all FDA-approved AI devices (**Figure 2**). New algorithms are already reducing scan times, increasing machine utilization, and expanding use cases (**Figure 3**). These are not theoretical – they are being deployed today.



Some worry that efficiency gains could reduce demand for equipment – but history suggests otherwise. Faster, better tools tend to expand adoption and grow the overall market.

When Geoffrey Hinton, often called the “godfather of AI,” said in 2016 that we should “stop training radiologists,” he expected the profession to be automated within years. Nearly a decade later, radiologists are in short supply (**Figure 4**), compensation is near record highs, and it remains one of the most competitive specialties among medical graduates. Technology did not replace radiologists; it made them more productive and in demand. This offers a useful case study as AI spreads through other industries: even as technology drives greater efficiency, demand



continues to rise, often faster than productivity gains can fill the gap.

Long-Term Opportunities

Periods of change often create opportunities for long-term investors, and the convergence of technology and health care is driving important shifts. We believe some of the most compelling opportunities are emerging among AI adopters – companies that are harnessing new technologies to strengthen and improve their businesses. Health care companies, in particular, have a significant opportunity to do so.

In our view, the medical technology space is a particularly fertile hunting ground for long-term investors given its vibrant innovation, expanding AI applications, and attractive valuations. Recent additions to the portfolio include Philips, Smith & Nephew, and Siemens Healthineers, all of which are sharpening their focus, investing in meaningful innovation, and fostering performance-oriented cultures. That pattern is familiar across our portfolio – companies in transition where improving fundamentals are not yet reflected in valuations.

This trip built on our deep networks and long-standing engagement across the ecosystem, further refining our insights and perspective as we identify emerging opportunities.

IMPORTANT CONSIDERATIONS & ASSUMPTIONS

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