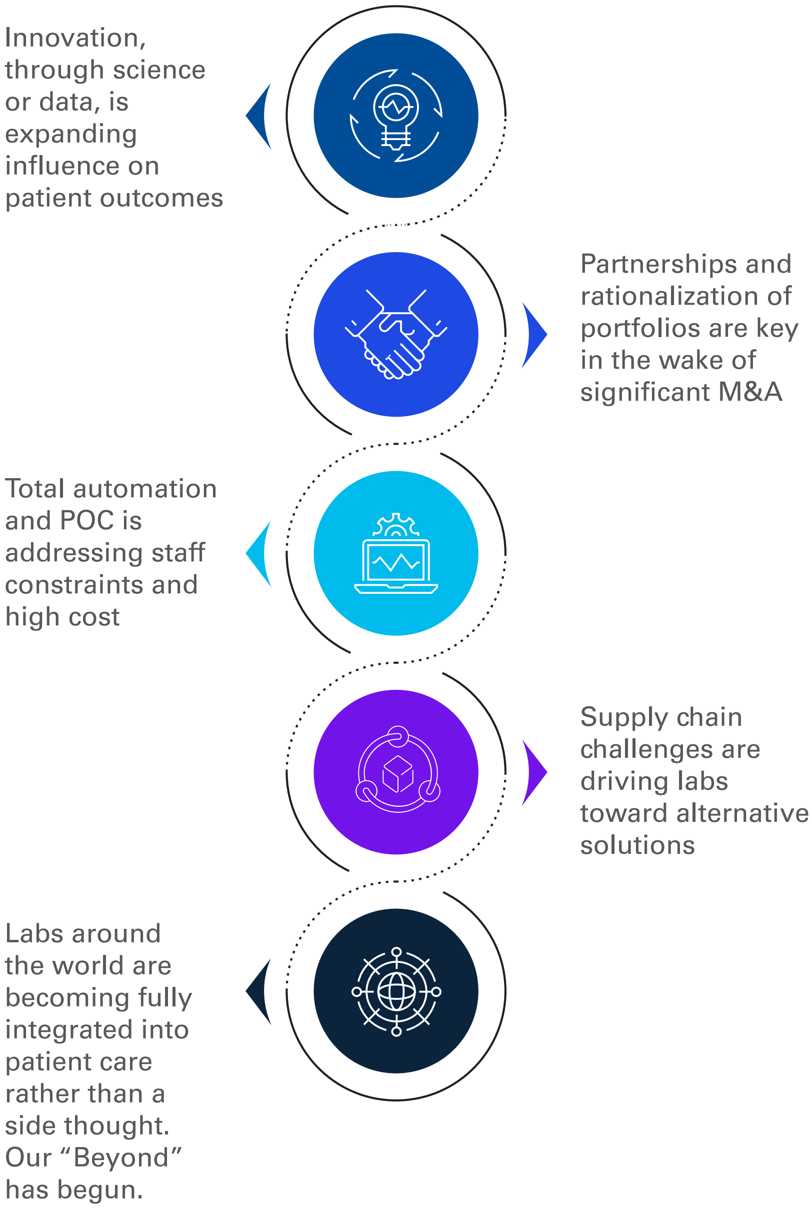
In vitro diagnostics deal making

Smaller deals, more partnerships, and continued innovation in 2022

Over the past few years, all things diagnostics have blossomed in life sciences markets, catalyzed by COVID-19. From swiftly commercializing massive innovation to overcoming challenges in supply chain to invading the hearts and minds of everyday people as they strove to stay healthy while also remaining mobile in their hometowns, COVID-19 pushed diagnostics to the forefront of investment and subsequent deal-making, resulting in a powerful deal market that filled portfolios and forced portfolio rationalization. And although COVID-19 has started to wane, its effects have powered diagnostics and the pivotal place of the clinical lab for the long term.

To that end, as we look at the half-year point for 2022, several trends have emerged overall in the diagnostics industry, further fueling the M&A trends in the space.

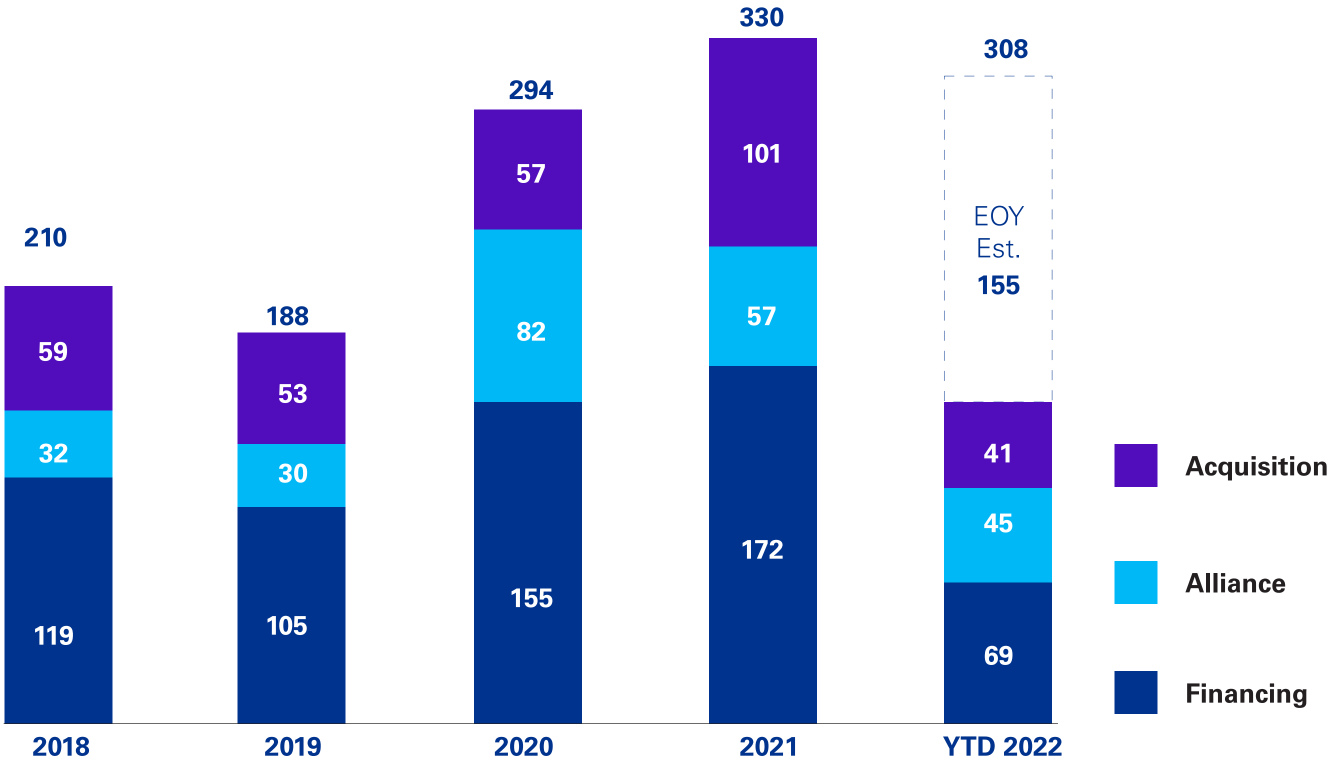


Deal-making in the first part of 2022 continued to be fast and furious, but transitioned to a different mix compared to 2021. We continued to see a high volume of deals in 2022 as we did in 2020 and 2021. However, compared to 2021, the proportion of alliances increased to date. See Figure 1 on the next page.

Additionally, the average deal size for in vitro diagnostics (IVD) and lab testing acquisitions and financing significantly dropped due to rising interest rates, geopolitical issues, high valuations, and focus on integrating existing acquisitions and value creation. See Figure 2 on the next page. Instead of large acquisitions, many companies focused on partnerships to accelerate growth.

Third, while the average person didn't know what polymerase chain reaction (PCR) was just three years ago, COVID-19 testing made PCR, molecular testing, and rapid testing household terms. This shift in consumer comfort with diagnostic tests have made way for other therapeutic areas and expansion of modalities, including point-of-care and at-home sample collection for infectious diseases, reproductive health, and beyond. The largest deals over the last 12 months encompassed these themes, including Quidel and Ortho Clinical Diagnostics $6.4B deal to combine Quidel's point-of-care portfolio with Ortho's global reach to help accelerate growth for Quidel.

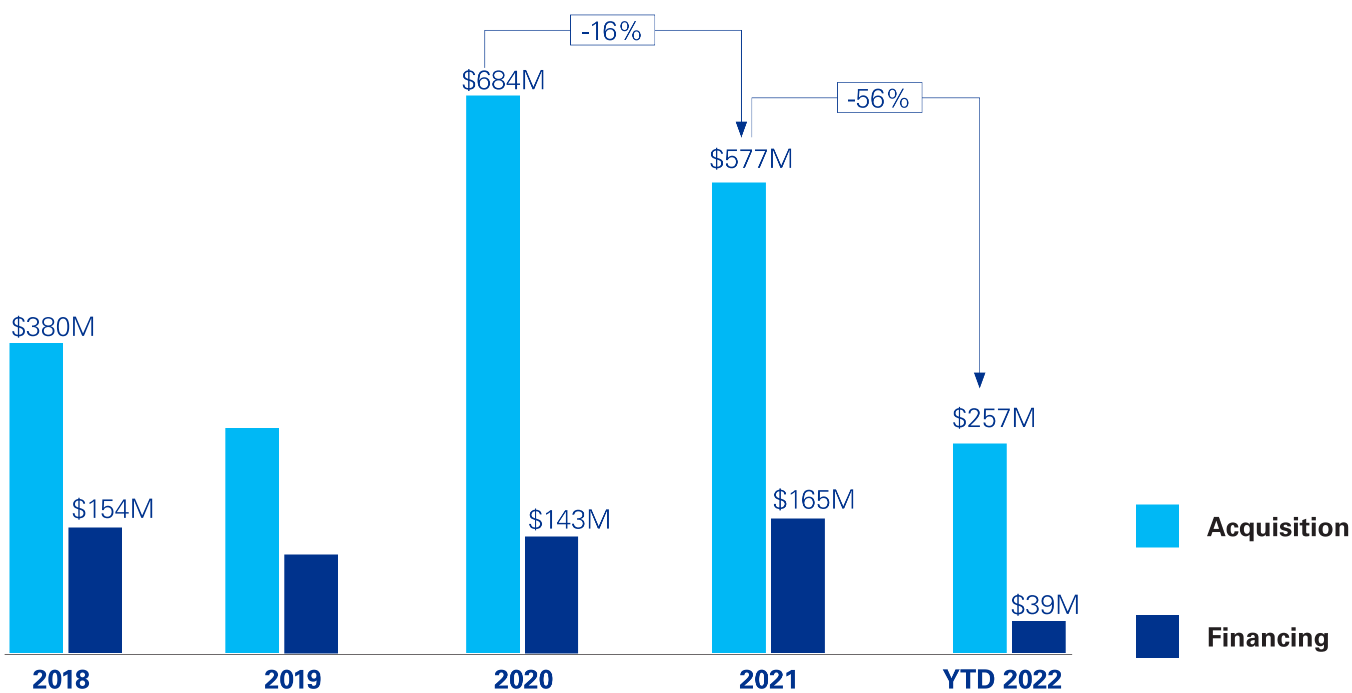
Figure 1: Diagnostics and Services Deal Volume by Deal Type (2017-YTD 2022)[1]



Source: (1) Informa – BioMedTracker, analysis based on deals industries of "In Vitro Diagnostics" and "Laboratory Testing Services" for corporate and PE backed deals until June 15, 2022; (2) Pitchbook, analysis based on deals industries of "In Vitro Diagnostics" and "Laboratory Testing Services" for corporate and PE backed deals until June 15, 2022; (3) 2021 was a blowout year for global M&A, KPMG whitepaper

Notes: 2022 total projected deal volume estimated based on midterm 2022 deal volume

Figure 2: Diagnostics and Services Average Deal Size in $M (2017–YTD 2022)[1]



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Notes: (1) Based on publicly reported deals sizes; (2) Any target with annual revenue <$1M is considered as part of pre-revenue.

Diagnostic testing investment is increasingly shifting to at-home testing and other decentralized testing that require unique capabilities or partnerships. For product manufacturers, this has led to deals such as Sorrento's acquisition of Virex Health to commercialize a next-generation at-home diagnostic testing that rivals PCR-level sensitivity. Lab testing providers have focused on unique partnerships, such as Labcorp partnering with Getlabs for at-home sample collection and Binx Health and Wellfleet partnering to offer students at-home or in-dorm sample collection to broaden access to HPV tests.

As we look towards the future, series financing points to even more innovation to come and opportunities to address some of the biggest unmet needs, such as achieving both convenience and accuracy. For example, Sherlock Biosciences, a company engineering biology to bring CRISPR-based diagnostics to the point-of-need, raised $80M in a Series B financing, and Visby Medical expanded its Series E round to over $135M in June 2022. Finally, the continued darling of diagnostics innovation, liquid biopsy, remained strong in 2022, with Delfi Diagnostics announcing Series B funding of $225 million in July 2022, Epic Sciences announcing $43M in Series F round in June 2022, and Freenome surpassing $1B in total funding with $290M in investment from Roche in January 2022.

Finally, portfolio rationalization is key in the wake of significant M&A. Most recently, PerkinElmer, in a $2.45B deal, divested three of their businesses to New Mountain Capital in a move that transformed the company into a progressive, innovative diagnostics and cell and gene therapy company. We are also seeing GE's spinoff of GE Healthcare and 3M's spinoff of its Health Care business. All of these moves from "the mothership" allow the healthcare and life sciences businesses of large behemoths to focus solely on impacting patients and healthcare consumers worldwide.

The market is still hot, and deals, in all of their forms, are still going strong. What does this mean for investors in this space, and what considerations are required for the integrations or separations to come?

The following are major highlights that we work through with our clients in this market:

What are we discussing with our clients in this environment?

Focus on extracting value from acquisitions

Given the high number of acquisitions already completed, high multiples, high interest rates, and many other challenges, companies may want to focus activities on value creation and integration of previously acquired companies

Go beyond the traditional diligence questions

Your growth strategy pre-deal, your financial, operational, and commercial due diligence, the rapid integration of your assets, and the performance of those assets and your company as a whole are all under increased scrutiny

Adapt to the changing market

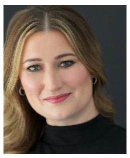
As new technologies emerge and patients become increasingly comfortable with diagnostic testing, adapt your business to new customer types and customer preferences

Look to partners, including untraditional partners

Partnerships can open the door to geographic expansion and accelerate the growth of your existing business. Furthermore, untraditional partners can help you reach new customer types

In summary, the diagnostics market, fueled in recent years by COVID-19 cash, has matured to a place where it is not only still vibrant with innovation, but also tactical with its investments and shifts to smaller deals, more partnerships, and rational divestitures. Diagnostics' time has come.

Contact us



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