Evaluate Vantage

February 13, 2019

J&J’s Auris buy looks like a Verb swerve

Madeleine Armstrong

Johnson & Johnson’s $3.4bn move for the robotic surgery specialist Auris Health could be bad news for its Verb Surgical joint venture.

It’s official: Johnson & Johnson has agreed to pay $3.4bn for the robotic surgery specialist Auris Health, a company with which it was linked in January. Not only has the deal come in well above the mooted $2bn price tag, it also looks like an admission that all is not rosy with J&J’s existing robotic surgery project, Verb Surgical.

J&J maintained today that it was “very committed” to Verb, a joint venture with Alphabet's Verily division. But recent developments, and now the Auris buy, appear to tell a different story.

In January reports surfaced that Verb’s chief executive, Scott Huennekens, had left the company. Then comments by J&J’s leader, Alex Gorsky, during the group’s fourth-quarter earnings call suggested that the Verb programme had progressed more slowly than hoped.

Mr Gorsky said investors should expect news on the group’s robotic offering “over the course of 2020 and beyond”, but did not give any precise approval or commercial timelines, Stifel analysts noted.

Any delay at Verb could make it harder for J&J to compete against the robotic surgery market leader, Intuitive Surgical.

Monarch rules?

Perhaps this is why J&J has paid so much for Auris; the deal also includes potential milestones of up to $2.35bn. The private group already has an FDA-cleared device, Monarch, which J&J will be able to start selling immediately. Furthermore, Monarch is ahead of a rival technology being developed by Intuitive.

Monarch is designed for the diagnosis of lung cancer; Auris had hoped eventually to use it for treatment as well. The device comprises an endoscopic tube that is fed through the patient’s mouth and into the lungs, where a built-in camera relays its findings to the operating room. The device is navigated by the surgeon via a handheld controller.

J&J knows Auris well: it teamed up with the company last May to develop a project combining Auris’s endoscope with its own NeuWave Flex microwave ablation system, to allow the treatment of lung lesions. Presumably this work will continue.

Intuive has a catheter-based device, called Ion, which it submitted to the FDA last year. This is designed to navigate through very small lung airways to reach peripheral nodules for biopsies.

Verb’s projects, meanwhile, have been shrouded in secrecy, but they are thought to be more analogous to Intuitive’s established da Vinci platform, which is used for minimally invasive soft tissue surgeries such as hysterectomies and prostatectomies.

This apparent lack of overlap means that it is not inconceivable that J&J hopes one day to market products originated at both Auris and Verb. Indeed, the company appears to be making a big push into this space in general, also last year acquiring Orthotaxy, a group developing a robotic surgery technology for knee replacement.

But anyone waiting for news about Verb should perhaps not hold their breath.