Livongo enters the medtech float hall of fame

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The deal is 2019’s second-biggest medtech flotation, and the fourth-biggest ever.

On Monday Livongo upsized its flotation from the previously named figure of $246m, saying it would instead aim to raise $278m. Today it smashed even that target, bringing in a haul of $355m. And the money kept rolling after that: in early trading today the shares were up 50%.

The deal is further evidence of healthcare investors’ boundless appetite for all things digital. Livongo makes devices and software to help diabetes patients manage their disease and has an unusual business model, whereby it partners with large organisations that then offer Livongo’s technology to their employees.

Premium pricing

So far 2019 has been a good year – sort of – for medical device makers seeking capital on the public markets. There has only been a handful of new issues, but most of those that have gone ahead have listed at a premium to their pre-announced range and seen their stock appreciate in value (Few medtechs go public, but those that do, do nicely, July 12, 2019).

Livongo has achieved the premium, certainly, going out at a price 12% higher than the $24-26 per share range it gave on Monday. This was itself a jump from its earlier filed price of $20-23. In the end the company sold 12.7 million shares – two million more than it had previously suggested – at $28 apiece, raising $355m and claiming a market value of around $2.5bn.
Livongo’s technology offering is almost closer to consumer health than traditional medical devices. Members of the Livongo for Diabetes programme receive an FDA-cleared cellular-enabled glucometer with two-way messaging, free unlimited blood glucose test strips, and access to diabetes “educators” for support and goal-setting.

The programme is paid for through subscription by the patients’ employers. At the end of March Livongo had 679 clients, and over 164,000 patients had enrolled in Livongo for Diabetes. In its IPO filing the company lists several dozen customers which it says generated more than $100,000 in revenue in 2018, including Citigroup, Merck & Co and Microsoft.

Livongo is also signing people up into programmes covering hypertension – this comes with a proprietary blood pressure cuff – prediabetes, weight management and behavioural health.

Tech, not drugs

The company has received a fairly hefty amount of venture financing, raising $232m over the past five years, and its backers will be delighted with the success of today’s IPO.

But the company is not turning a profit, and indeed its net loss in 2018, of $33.4m, widened significantly from the year earlier. When the shares start trading later today the market will learn just how keen investors are for digital heath technologies like this.

Medtech stocks are currently outplaying those of biopharma companies; a potential concern for investors in the latter is the US government’s unclear but potentially threatening plan to rein in spending on drugs (Drug pricing concerns return for pharma, July 12, 2019). Perhaps Livongo is a beneficiary.

Some potential shareholders might also be tempted by the possibility of a buyout. These kinds of deals are happening: Roche bought the digital health group Flatiron Health for $2bn in early 2018, and the diabetes algorithm developer Typezero was taken out by Dexcom last year. But if a buyer had been sniffing around Livongo the company would surely have taken that deal in preference to an IPO; a takeover would seem less likely post-float.

Still, stranger things have happened. Livongo is one to watch.

Note: this article has been updated to include Livongo’s first-day trading information.