

Antitrust watchdog plunges Illumina's megamerger into darkness



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Even if the sequencing giant doesn't suffer in the short term from the death of its bid for Pacbio, long-read tech is nipping at its heels.

It is rare that the US Federal Trade Commission declares that a medtech deal simply must not happen. But it has done just that in the case of [Illumina's \\$1.2bn bid for Pacific Biosciences](#), and the acquisition is almost certainly toast.

The canning of the deal comes after – though not as a result of – Oxford Nanopore Technologies' insistence that the deal was anticompetitive. The private UK firm offers similar technology to Pacbio, and will be delighted that a super-competitor will not now emerge. However, the possibility for its own exit has arguably grown dimmer.

Pac it up

Illumina has long argued that its core tech is different from PacBio's. Illumina's machines sequence short strands of DNA – a few hundred bases – and use computers to assemble them. Pacbio's systems can sequence pieces of around 10,000 bases, which is more accurate if slower and pricier. In recent years, though, improvements in Pacbio's accuracy and throughput mean that its long-read tech is becoming more competitive with the short-read method.

This is why Illumina wants Pacbio, and why the FTC feels that it should not have it. In [a statement yesterday](#) the regulator said Illumina already had a monopoly in the US whole-genome sequencing market, but that buying Pacbio would eliminate a nascent competitive threat, allowing this monopoly to stand for longer than it ought.

The agency said some customers had already switched from Illumina to Pacbio for certain sequencing applications, and that Pacbio was poised to take more volume from Illumina.

The UK's Competition and Markets Authority has also weighed in on the deal, [saying in October](#) that it might thwart it. To avoid this Illumina offered to license some of its IP to competitors including Oxford Nanopore; the UK group insisted that this was not enough, [suggesting that Illumina divest](#) its highly successful NovaSeq platform instead.

Future

The markets have been uncertain about the deal for a while; Pacbio's shares have been on the slide since May, and were down a third from Illumina's offer price even before the FTC made its decision public. So far today shares are down a further 4%.

Pacbio is not profitable, and losses have widened over the past year. It had just \$33m in cash at September 30. Use of its technology might be picking up, but Illumina is still a vast competitor, and without a buyer Pacbio will have to find some other way of funding operations.

Illumina's investors are much more sanguine, with the stock unchanged today, and while short-read tech might not be the most accurate sequencing method it is still more than sufficient for most applications, including liquid biopsies.

Illumina is thought to have a worldwide next-generation sequencing market share of around 70%, and was boosted recently by Qiagen quitting the sequencing space ([*Storm-tossed Qiagen plots a course to higher growth*](#), October 8, 2019). It isn't going anywhere.

Investors in Oxford Nanopore – among them one Neil Woodford – might also muse on what the deal's cancellation means for the future of this group. Rumours earlier this year that Oxford Nanopore was considering a flotation were superseded in October by whispers that it was chasing another funding round that would value it at around £1.6bn (\$2.1bn). This is despite its sales being much lower than Pacbio's – \$43.6m in 2018 versus \$78.6m.

Many of the anti-monopoly arguments that apply to Illumina-Pacbio would also apply to Illumina-Oxford, and at that sort of valuation few companies could afford Oxford Nanopore anyway. Those considering pitching into the company's funding round might want to give some thought to how they might get their return.

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