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## Invitae ends medtech merger drought with ArcherDX deal



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**The cash-and-stock deal, worth \$886m up front, is the first major liquid biopsy acquisition since Roche bought Foundation Medicine.**

Lockdown has profoundly suppressed medtech dealmaking, but it has not annihilated it altogether. Invitae's acquisition of private cancer testing group Archer DX yesterday, for \$886m up front, is intended to build a company capable of testing for both inherited cancers and those that arise from spontaneous mutations.

Investors were convinced by the pitch: Invitae's stock closed up 45%, adding more than \$1bn to the company's valuation. As for Archer, which had recently filed to float, the acquired mutation testing and liquid biopsy group has had a storming month: the buyout caps partnership deals with AstraZeneca and Bristol Myers Squibb, and delivers investors a much preferred exit option.

Invitae's technology is mainly focused on testing for germline mutations – those that cause hereditary cancers. Its Cancer Screen assay, for example, which examines 61 genes to assess a healthy person's risk of developing an inherited form of cancer, can be [bought from its website for \\$250](#).

Sales of this and Invitae's other assays were going gangbusters at the start of this year, with the group on track to sell 850,000 tests during 2020 versus its prior guidance of 725,000. Then the pandemic hit and cancer testing was no longer a priority; by mid-March test sales halved prompting Invitae to suspend its guidance.

Covid-19 was also the reason Invitae gave for pulling back on its in-house development of testing for somatic, or spontaneous, oncogenic mutations. But at that point, in early May, the company must at least have been mulling the Archer DX acquisition.

### **On target**

Somatic mutation testing is Archer's stock in trade. One of its big hopes is Stratafide, designed to identify "mutations with FDA-approved targeted therapies", though no list of exactly which mutations it detects appears to be available. The company intends to seek FDA approval for this product; this puts Stratafide in the running to be the first pan-solid tumour blood test for mutations targeted by various different therapies. The favourite to win this accolade, however, is Roche's FoundationOne Liquid, filed with the FDA in December.

Archer also has monitoring blood tests, the subject of its deal with Bristol Myers. The companies were to evaluate the use of this technique in detecting minimum residual disease – where cancer cells remain after

treatment and can cause relapse – or the clearance of circulating tumour DNA as a means to inform future therapy selection. The deal with Astra concerns similar technology, this time focused on aiding phase III clinical trials for the pharma group’s immuno-oncology programmes.

Invitae might have viewed these agreements as validations of Archer’s tech. In any case, with targeted cancer drugs continuing to reach market at pace, demand for somatic mutation testing is unlikely to slacken. Archer describes the genomic profiling and recurrence monitoring markets as worth \$5bn and \$40bn respectively.

## **Terms**

The upfront part of the deal, structured as 30 million shares and \$325m in cash, is worth \$886m. A further 27 million shares of Invitae common stock, worth around \$505m at Friday’s closing price, is payable on the achievement of milestones.

Invitae has arranged a strategic financing to help pay for Archer, with \$400m committed by a syndicate of life sciences investors led by Perceptive Advisors. The company will also conduct a \$275m private placement supported by existing investors in both companies, which is to close at the same time as the merger. Lastly Invitae has arranged a credit facility for up to \$200m.

Leerink analysts described the deal as “transformative”, stating that Invitae could be in line for annual revenue growth of 50-60% “for years to come” as genetic testing becomes standard of care – though they noted the chunky sales multiple of nine times Archer’s estimated 2021 revenues.

This deal is a positive for the medtech sector. But the catastrophic effect Covid-19 has had on business development cannot be denied – the Invitae-Archer merger is only the 10th announced this year, *EvaluateMedtech* data show.