

Ortho Clinical takes a haircut



[Elizabeth Cairns](#)



Discount pricing and poor first day defies the recent trend for floating device makers.

Sooner or later the bull run for medtech flotations was going to come to an end; it is perhaps a shame that it was a megadeal that became the first to disappoint for some time. Ortho Clinical Diagnostics' IPO on the Nasdaq yesterday raised \$1.3bn, but was priced at a sharp 21% discount to its preannounced range, making it [the first medtech to miss its pricing target for more than a year](#).

And by yesterday's close the shares had drifted 5% from the \$17 offering price – again, a far cry from the scorching performance of recent device and diagnostic listings. Even the fact that Ortho Clinical sells a suite of Covid-19 tests, a major driver of medtech stocks' performance over 2020, failed to spur enthusiasm.

Intriguingly, the offering had been upsized, from an initial 70 million shares to 76 million, so it appears Ortho Clinical's owner, the Carlyle Group, had anticipated better performance than materialised.

But the company is not profitable, having made a greater loss, \$171m, in the fiscal nine months ended September 27, 2020 than it did in the same period in 2019, according to [an SEC filing](#). It is also debt-laden, with its total indebtedness of \$3.7bn outstripping its market cap, which sits this morning at \$3.5bn.

All this suggests that investors considered the company to be overvalued – though in the current market Ortho Clinical is not the only company that could be accused of such a thing.

Debt and growth

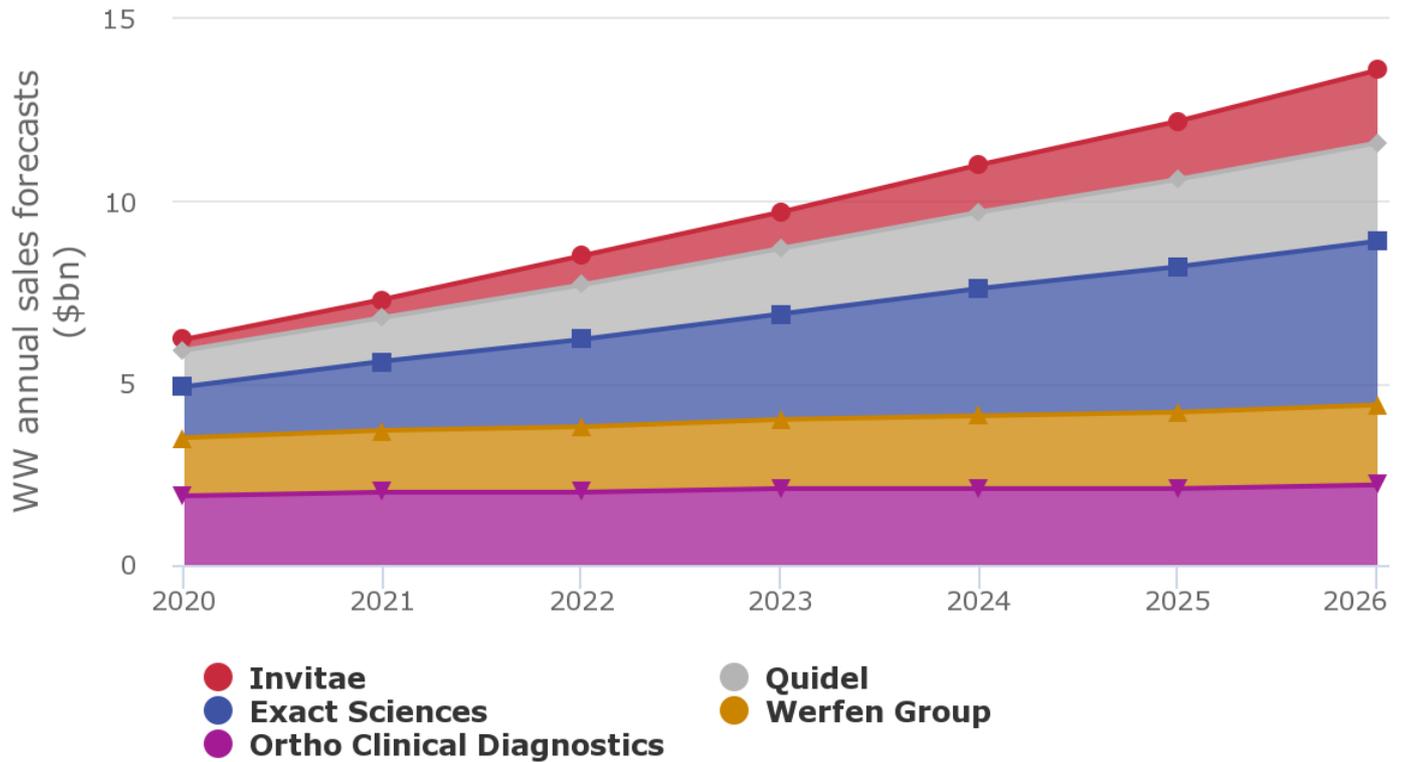
The Carlyle Group had bought Ortho Clinical from Johnson & Johnson in 2014 for \$4bn ([Carlyle's bid for Johnson & Johnson fixer-upper bucks market trends, January 17, 2014](#)). At float, the private equity firm retained a 66% stake in Ortho Clinical, hardly the clean exit most private equity firms seek for their purchases.

Ortho Clinical says it will use the IPO proceeds to pay down some of its debt, as well as for working capital and general corporate purposes – which it said may also include further repayment of debt.

The company, which specialises in tests to monitor disease progression as well as blood typing, is now the world's largest pure-play diagnostics group. But it might not hold that position for long. Its growth is forecast to be sluggish, according to consensus forecasts compiled by *EvaluateMedTech*, and it will be outpaced by cancer-focused Exact Sciences in 2022, and infectious disease diagnostics group Quidel in 2024.

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