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Invitae borrows against the future


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Cancer diagnosis is likely to see a huge resurgence in demand as the pandemic ebbs, and Invitae wants to be ready.

In a year that has so far been characterised by huge medtech takeovers Invitae yesterday delivered a bit of a swerve: of the two deals it signed it was the fund raising, rather then the acquisition, that was the more eye-catching.

The cancer testing group, a liquid biopsy player since its acquisition of Archer DX last year, bought the sequencing and lab services provider Genosity for $200m. More importantly, however, it closed a $1.2bn convertible debt financing, meaning that it now has over $1.5bn in gross cash. But it is still loss-making, and the risk of it taking on debt equal to some 15% of its market cap should not be ignored.

Still, Invitae seems determined to grow into a major player in a high-growth area, and more acquisitions to achieve this are likely.

In a pattern mirrored across the whole industry, Covid-19 took a toll on Invitae – this time last year its test sales had halved, and it suspended its 2020 guidance. This trend is expected to reverse as vaccination drives take effect and hospitals reopen, allowing more cancer patients to be seen and biopsies to be conducted.

Invitae wants to be in a position to take advantage, and now has the firepower to do so. The debt deal, led by the Softbank subsidiary SB Management, comprises $1.15bn of convertible senior notes bearing 1.5% interest and maturing on April 1, 2028. The initial conversion price is $43.18, about $3 above Invitae's current price.

The clear risk is to equity holders, who could see future dilution should things not go to plan. Last year Invitae reported operating losses of $685m. The new cash is earmarked for in-house development as well as further acquisitions, the company said, and its stock rose 3% yesterday.

Next deal in the sequence

The question is whether future acquisitions will be large transformative deals like the $886m Archer DX move or tuck-ins like Invitae's other M&A – including its purchase of Genosity. Genosity makes software and data management services, which Invitae plans to use in the development of its personalised assay for minimal residual disease and cancer recurrence.

The cash-and-stock deal also nets Invitae next-gen sequencing capability for both inherited and spontaneous oncogenic mutations. Genosity has historically offered these services to a range of customers, meaning there are parallels between this tie-up and Illumina's acquisition of Grail, now delayed because of the FTC's investigation (*Illumina hits the antitrust wall – again*, *March 31, 2021*).

Invitae is likely to escape similar trouble with the competition authorities, however. Genosity's sequencing services are different from Illumina's and it is not believed to have a dominant market share.

It is of course possible that Invitae might decide to pull these services from the market, keeping them solely for itself. While not being anticompetitive per se, such a move might inconvenience its competitors. But it will take more than this to build a new cancer testing powerhouse; stand by for further dealmaking.

Invitae's M&A history			
Date	**Target**	**Value ($m)**	**Financing structure**
Apr 5, 2021	Genosity	200	Cash and shares
Oct 2, 2020	Archer DX	1,400	Cash and shares
Mar 10, 2020	Diploid	95	Cash and shares
Nov 12, 2019	Clear Genetics	50	Cash and shares
Jul 11, 2019	Jungla	50	Cash and shares
Nov 14, 2017	Combimatrix	33	Share exchange
Aug 4, 2017	Good Start Genetics	40	Cash and shares
Jun 12, 2017	Ommdom	6	Share exchange
Source: Evaluate Medtech, company releases.			