

Illumina splurges \$450m on Verinata after Roche walks out



[Elizabeth Cairns](#)

A day after it overplayed its hand with Roche and scared its Swiss suitor away, the sequencing company Illumina has completed an acquisition of its own. Verinata Health, which specialises in molecular diagnostics for foetal chromosome abnormalities, has been snapped up for \$350m in cash plus milestones.

The purchase is in line with Illumina's stated wish to diversify from its genetic sequencing core into broader diagnostics operations. However, this is cold comfort for investors. Illumina's stock had been sailing cheerfully upwards for the past four months on the expectation of a Roche deal, and when the negotiations foundered Illumina's share price fell 7%. The Verinata acquisition has not had any positive effect.

Pregnant with possibilities

The two companies already have a partnership of sorts - Verinata runs its tests on Illumina's instruments at its CLIA-certified lab. Now, Illumina has snared Verinata's flagship Verifi product, the broadest noninvasive prenatal test for high-risk pregnancies currently available.

The Verifi test detects missing or copied chromosomes by analysing foetal DNA, which is extracted from a blood sample taken from the mother. It is used to screen for Down's, Edwards and Patau syndromes, as well as the most common sex chromosome abnormalities: Turner, Klinefelter, Jacobs and Triple X syndromes.

The technology relies on cutting-edge DNA sequencing, so is comfortingly close to Illumina's genomics focus. At the same time it offers access to promising new vistas: noninvasive prenatal diagnostics are a rapidly growing area - Verinata estimates that 500,000 high-risk pregnancies occur in the US each year, out of 4 million overall. These pregnancies give the platform a market opportunity of around \$600m this year alone.

If Illumina can find synergies with existing assets, the purchase ought to dilute its non-GAAP earnings per share by 20 cents in 2013 before turning accretive in 2014 and beyond. As for Verinata, which raised a \$48.5 million Series C in August 2011, the buyout gives its investors a highly satisfactory exit.

Illumina acquired a similar, though much smaller, company called BlueGnome in September, thereby gaining its 24sure platform, which is used to the same purpose as Verifi. Its attempt in November to buy Complete Genomics, a human genome sequencing company whose technology is used for research rather than therapeutic purposes, for around \$114m was rebuffed, however.

Turned down like a bedspread

Roche has been chasing Illumina with some aggression. It made a hostile bid a year ago, a sweetened \$6.7bn offer in April, and was rumoured to be considering a friendly bid of more than \$8.1bn this time around.

Illumina's decision to turn Roche's latest offer down might not be as daft as it initially appears. Franz Humer, Roche's chairman, said that Illumina was a "nice to have" rather than "must have", and insisted that there were other ways for his company to gain sequencing technology. While this is of course true, UBS's Daniel Arias pointed out that Illumina is a strong fit for Roche.

If Illumina can turn Verinata to its advantage, Roche might offer a higher price; and if it cannot, it could find itself suddenly willing to accept a lower one.

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