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BioFire casts a long shadow over BioMérieux's molecular diagnostics venture

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It is not only in biotech that some of the most attractive takeovers are to be found among private companies, as BioMérieux's $450m acquisition of BioFire Diagnostics, announced yesterday, has shown.

However, if BioFire marks a landmark in BioMérieux's frantic acquisition spree, it also threatens the French group's earlier infectious disease diagnostics effort – a venture with Biocartis. Still, the move does underline molecular diagnostics as one of medtech's most attractive areas, and sends a message to other companies pondering M&A: debt is cheap, so if you like a target snap it up.

That said, BioFire can hardly be called a bargain, and it is likely only thanks to the availability of cheap debt that BioMérieux was able to bid as high as it did. The target company is expected to generate $70m of revenue this year and $80m in 2014, but is still loss-making, and will likely require further investment to boost its product offering to a profitable level.

FilmArray

The main attraction of BioFire, a private business that was spun out of the University of Utah over 20 years ago and until last year was known as Idaho Technology, is its PCR-based FilmArray technology.

FilmArray is a molecular diagnostics system for infectious diseases that is CE-marked and US FDA-approved for an initial respiratory panel of 20 viruses and bacteria. It delivers a result within one hour using a single reagent, BioMérieux says. FilmArray accounts for around $40m of BioFire's top line, but revenue should grow as it is expanded to detect over 70 disease agents over the next three years.

However, where it leaves BioMérieux's molecular diagnostics venture with the private Belgian company Biocartis is less certain. That deal had been struck in 2010 with the aim of launching a fully integrated molecular platform, and was expanded a year later to accommodate BioMérieux's €37.5m acquisition of Argene.

With Argene had come diagnostic tests focused on infectious diseases in immunocompromised patients, and these are at present run on the Biocartis platform. However, it now seems that this effort is being superseded by BioFire – after all, BioMérieux is unlikely to need two competing anti-infective diagnostic technologies. The French company says it will now review its role in the joint Biocartis project.

It is possible that, rather than persevere with Biocartis, BioMérieux is taking a more drastic measure to boost the scale of its molecular diagnostics offering. Analysts at Bryan, Garnier & Co said the group's ominous statement did not "leave too much room for hope" for Biocartis.

Debt

BioMérieux's balance sheet will now be geared up; the group had net debt of €43m at the half year, but this will balloon following the BioFire acquisition. BioMérieux has secured a €500m loan maturing in July 2014 and March 2017, and its pro forma net debt will exceed last year's earnings before interest, tax, depreciation and amortisation.

While this is manageable, as Jefferies analysts point out the price tag for BioFire on a simple sales multiple basis is at the top end of historic molecular diagnostics deals. BioFire raised $25m last year shortly before a management reshuffle, and looks as though it was being dressed up for a trade sale; BioMérieux likely had to outbid multiple competing parties.

All this will come as cold comfort to Biocartis's private backers. When it came to taking its molecular diagnostics offering up a gear, BioMérieux not only declined to buy their company out, it also saw sense in paying through the nose to acquire a competitor.

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