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LipoScience worth $85m to LabCorp, but investors unimpressed

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Laboratory Corporation of America's move on diagnostics firm LipoScience is itself unremarkable – the two companies have had an agreement since 2005 under which LabCorp offers LipoScience's cholesterol test. But the terms look generous, with the $5.25 per share deal representing a 65% premium to LipoScience's share price at close on Wednesday.

This is all the more true given the financial position of LipoScience. Its second quarter results, released last month, were pretty dismal, and the offer price is substantially below the $9 at which the company floated in January 2013. LabCorp says that the $85m all-cash deal will close this year and will be accretive a year later, but its own shareholders sent its stock down 2%.

Validation

LipoScience makes a blood test that quantifies circulating low density lipoprotein (LDL) using nuclear magnetic resonance. The LipoProfile assay has been shown to be a better predictor of clinical outcomes than the standard lipid testing methods, and also has another edge in that it is regulated by the FDA: many competing tests are the less validated, 'home-brew' products the regulator is to crack down on.

The trouble is, for now at least, home-brew tests are cheaper. LipoProfile has struggled to carve out sales, with doctors reluctant to abandon the standard cholesterol tests and insurers unwilling to pay for the new technology.

LipoScience's second quarter 2014 results showed how badly it had done. Revenues were down 32% on the same period a year earlier, and its net loss for the quarter widened from $2.4m in 2Q13 to $4m. Loss per share increased 59% to $0.27.

Nonetheless LabCorp has jumped in. The second largest laboratory test company after Quest Diagnostics, LabCorp has the marketing might and established relationships with doctors and hospitals which if thrown behind LipoProfile could succeed where LipoScience has failed.

IPO

The deal underlines the fact that while IPOs are growing in popularity in the medtech space, they are often not the company's final move in establishing itself but a financing event – a way to raise cash before the firm achieves its ultimate goal of a buyout.

LipoScience raised $45m via its IPO at the beginning of 2013, though it had to take a 36% haircut to get away. The company had initially sought to raise as much as $86m. The stock had lost a quarter of its value this year (*Orthopaedics companies seek to follow diagnostics in going public, April 4, 2014*).

Perhaps LabCorp is relying on the FDA to swiftly introduce its proposed changes to the way diagnostics are regulated, eliminating LipoScience's home-brew competitors at a stroke. But this change could take years (*FDA takes aim at unapproved cancer drug tests, August 4, 2014*).

LabCorp's shareholders must hope the company has seen an opportunity to buy out a promising partner in a weakened state. Any scepticism is understandable.

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