

## Thermo kicks off 2016's medtech megamergers



[Elizabeth Cairns](#)

Compared with its takeover of Life Technologies back in 2013, Thermo Fisher Scientific's acquisition of the genomics analysis group Affymetrix is small potatoes. But the \$1.3bn deal – the first billion-dollar medtech merger since September – is expensive, and Thermo will have to cut all the costs it can if it is to make it pay.

Affymetrix turned over around \$350m in 2014, but is not profitable. At least its technology should mesh well with Thermo's, as both have similar strengths in genomic sequencing and diagnostic products as well as service provision. Thermo will pay \$14 per share in cash for Affymetrix, subject to shareholder approval, and at a 52% premium to the close on Friday this seems unlikely to be withheld.

### Parallels

Most of Affymetrix's business is in service provision; it has a wide range of technologies including genotyping tests to allow the better matching of transplant donors and recipient and tests to measure gene expression levels. It sells these to companies and researchers for purposes such as drug discovery and development, and immuno-oncology and translational research.

It is also active in the buzzing area of non-invasive prenatal testing (NIPT), a way of diagnosing foetal genetic abnormalities such as Down's syndrome from the mother's blood. The Harmony test developed by Ariosa Diagnostics – now part of Roche – runs on Affymetrix's equipment.

Again the parallels with Thermo Fisher are striking: Premaitha Health's Iona NIPT product runs on Thermo's sequencing instruments. It is beginning to look possible that NIPT will become widely reimbursed in the coming year or two, and while this is not by any means Thermo's main reason for buying Affymetrix it could be a useful addition.

Affymetrix is to be integrated into Thermo's Life Sciences Solutions division, which was formed to house the products and services it acquired when it bought Life Technologies two years ago ([Thermo Fisher spends \\$14bn to finally get a Life, April 15, 2013](#)).

### A tight ship

Leerink analysts point out that, at around 25 times trailing ebitda, the acquisition is pricey. Nevertheless they believe that Thermo Fisher can achieve a high-single digit return on the purchase within three years.

This will require Thermo to run a very tight ship. The company said it could cut costs to the tune of \$70m by the third year after the deal closes, which is expected this quarter. Around \$55m of this sum is cost synergies, and \$15m adjusted operating income benefit from revenue-related synergies.

Leerink said a cost synergy target of around 15% of target revenue within three years was lofty and higher than comparable deals. For example, this figure was around 13% for Hologic's purchase of Gen-Probe back in April 2012 and 8% for the Thermo-Life Technologies deal a year later.

The analysts believe that this is attainable all the same, with Affymetrix's products filling some gaps in Thermo's businesses and its growth accelerating once these products have access to Thermo's broader customer and geographic channels.

As so often in medtech, this deal is principally about building scale and taking out a competitor. If Thermo can make a success of it – and it integrated Life Technologies with little difficulty – more consolidation in the sequencing, genomics and services arena is to be expected.

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