

European molecular diagnostics: the new face of medtech M&A?



[Elizabeth Cairns](#)

The two diagnostics deals announced this morning may not be on the same scale as the acquisition of Alere by Abbott last month, but they are illustrative of some of the same trends. DiaSorin's acquisition of Focus Diagnostics, which is being spun out of Quest Diagnostics, for \$300m and Qiagen's purchase of Exiqon for \$100m are, like the Abbott deal, all about strengthening a product offering.

DiaSorin and Qiagen, both mid-cap European companies, are aiming to add to their molecular diagnostics portfolios. There is a great deal of interest in nucleic acid-based tests, and the fragmented European diagnostics sector is ripe for consolidation. If Abbott has started a new wave of testing consolidation, these new deals will not be the end of it.

Building scale

Focus has been a unit of Quest since its purchase in 2006. Most of its \$80m revenues come from its molecular diagnostics for infectious diseases, including its Simplexa tests for diseases including *Clostridium difficile*, Epstein-Barr virus and cytomegalovirus and its HerpeSelect herpes simplex test.

The unit is likely to sit better with DiaSorin than with Quest. Quest is selling the unit as it is increasing its interest in bioinformatics whereas acquiring Focus will allow DiaSorin to build scale in molecular diagnostics, and increase its footprint in North America. The US is a definite target for the company, with management saying that it wants 50% of total revenues coming from the country. Currently, just over a quarter of its sales come from North America; this could increase to around 34% after the deal closes.

Analysts from Berenberg wrote that Focus is growing at double-digit rates and serves over 200 large US hospitals that are of strategic importance for DiaSorin. There is also a good financial reason for the deal: DiaSorin is sitting on around €280m (\$317m) of net cash, which will fund the acquisition.

It appears to have paid a reasonable amount. At around 12.5 times Ebitda and 3.75 times sales the price looks generous, but previous transactions in the diagnostics sector over the last several years have an average of 15-18 times Ebitda, the Berenberg analysts wrote. They added that the acquisition could allow DiaSorin's 2017 sales to jump by around 14%, with an 11% boost to Ebitda and 8-9% to net income.

DiaSorin's shares are up 11% in early trading. If its investors like this deal they might well have appetite for more: if the company is to hit its target for US sales it will have to buy more companies there.

New technology

The Qiagen-Exiqon deal is less about building scale than a bolt-on allowing access to innovative technology. Qiagen needs to be able to keep abreast of the rapidly evolving – and fast growing – sample preparation segment and buying Exiqon should help it secure leadership here.

Exiqon offers genetic sequencing services and microRNA profiling, and works with pharma companies to develop molecular diagnostics to help physicians make treatment decisions. Its locked nucleic acid technology improves the specificity and sensitivity of PCR-based tests and other assays, it says.

Qiagen is spending around \$100m on the Danish company; the price of Dkr18 per share is a 42% premium to the group's shares. Exiqon had sales of around \$20m in 2015 and is growing in the low to mid-teens. Qiagen's own shares are up 1% so far today.

While there are diagnostics giants on both sides of the Atlantic there are still plenty of middling and smaller companies. The US has already seen a fair bit of amalgamation but with more funding available for early stage companies new start-ups emerge there at a faster rate than in Europe.

When these acquisitions close DiaSorin and Quest will be closer in size; they might not become rivals as such, but with DiaSorin in particular likely to keep buying this could be the start of a new class of European diagnostics groups.

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