

Roche to acquire COVID Test Maker GenMark for \$1.8B

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“Together with Roche’s diagnostics healthcare solutions, we will be able to provide a full suite of molecular diagnostic solutions to customers around the world.” - Scott Mendel, CEO of GenMark

Deal Overview

- **Acquirer:** Roche
- **Target:** GenMark
- **Industry:** Medical Diagnostics
- **Transaction Amount:** \$1.8B
- **Date:** March 15, 2021
- **Target Advisor:** J.P. Morgan
- **Acquirer Advisor:** Citi

In the midst of the COVID-19 worldwide vaccination program, a fascinating deal in the medical devices industry has been signed. Roche, the 2nd most capitalized company of the Swiss Market Index and worldwide leader in the pharma industry, plans to fully acquire GenMark, a molecular diagnostics company involved in producing fast tests

for COVID-19. Roche enters into this agreement buying all outstanding shares and valuing the target at \$24.05 per share, for a total transaction amount of \$1.8 billion on a fully diluted basis. Considering GenMark’s unaffected closing share price on February 10, 2021 (the last trading day before rumours speculating about a potential sale process started circulating), this price represents approximately a 43% premium.

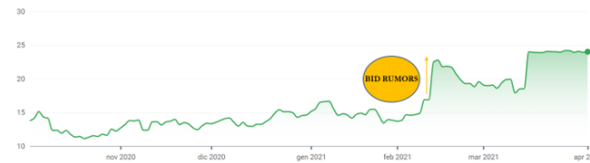


Figure 1: Source: Google Finance, “GenMark Share Price Evolution”

The takeover is expected to close in the second quarter of 2021, subject to customary closing conditions.

Companies Overview – Roche

Founded in 1896 and headquartered in Basel, Switzerland, Roche is a worldwide leader in the healthcare sector operating through the pharmaceutical and diagnostics segments. According to Factiva, Roche is the biggest pharma company based on sales (CHF 58.32 bn in 2020), it has a market cap of CHF 267.2 bn (as of March 20th, 2021) and invested CHF 12.2 bn in RD last year. Having recorded 49 takeovers in its lifetime, Roche believes strongly in M&A as a growth driver.

The Swiss company is on the front-line in the fight against COVID-19. In October 2020, Roche and Atea joined their forces to collaborate in the production of an orally administered direct-acting antiviral

to treat COVID patients outside the hospital setting, which, if effective, is aimed to be made globally accessible. In addition, the company is collaborating with Gilead to treat patients with severe pneumonia induced by the virus (however, without reaching the expected results up to now).

The acquisition of GenMark goes in the direction of expanding Roche’s molecular diagnostics portfolio to include solutions that can rapidly provide life-saving information to patients and healthcare providers in the fight against infectious diseases.

Companies Overview – GenMark

Started with a chip for DNA detection in 1993 by the team of J.F. Kayyem (PhD at CalTech), this medical diagnostics company evolved throughout the years into a publicly traded company that we now know as GenMark. The Californian company produces panels that simultaneously detect multiple pathogens linked to upper respiratory tract infections. The ePlex test can detect SARS-CoV-2 along with more than 20 respiratory diseases in one single take from a single patient sample, which is a product that Roche lacked before the takeover.

On the financial side, GenMark remains a loss-making company (\$19m loss posted for its most recent financial year). In an investor presentation delivered in January 2021, GenMark executives stressed the absolute priority of reaching soon cash flow positivity. In such respect, the pre-deal consensus among a pool of medical equipment analysts (from institutions such as BofA, J.P. Morgan, etc.) was that the company was bordering break-even, expecting it to post a final loss in 2021 before realising a net profit of \$13m in 2022. The sales evolution shows instead a solid growth throughout the years,

with a remarkable 95% YoY increase in the last period.

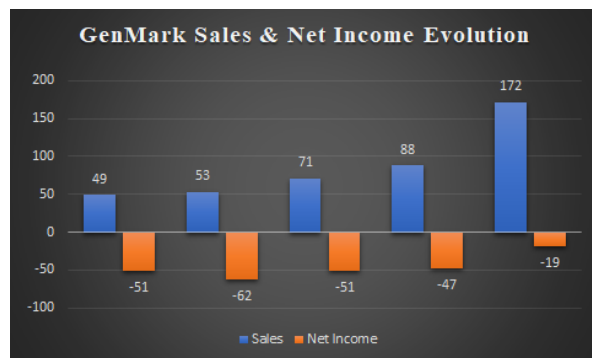


Figure 2: Source: Factiva, Own Illustration: “GenMark’s Revenue and Income Evolution”

One thing we would like to bring to light is that 89% of 2020’s revenue came from its flagship technology, ePlex, which achieved \$153 million in sales alone and rapidly became a dominant diagnostic tool in the pandemic environment.

Last but not least, it should be noted that the company is apparently rather levered with a debt-to-equity ratio approaching 76%. The latest balance sheet data shows total liabilities amounting to \$129 million, of which \$44 million are due within the next fiscal year. However, GenMark also shows \$128 million of cash and \$20 million of receivables due within a year. All in all, we see a \$21 million surplus of liquid assets over total liabilities, suggesting that GenMark potentially has the necessary financial strength to eliminate its debt without much difficulty.

State of the Industry – Syndromic Multiplex Diagnostic

The ongoing pandemic is ushering in a new world of infectious disease diagnostics. The booming de-

mand for COVID-19 tests has brought a wave of cash to diagnostics companies, which have aggressively tapped into the M&A market in early 2021. Recently Thermo Fisher Scientific took over Mesa Biotech for \$450 million whereas PerkinElmer has just finalised the acquisition of Oxford Immunotec for \$591 million. In the next months, a new wave of consolidation is expected.

Besides M&A activity, we must emphasise that syndromic testing is proving itself in the market, with players reporting double-digit growth. Syndromic multiplex diagnostic (SMD) is a diagnostic test of various pathogens in a single test and provides more accurate, realistic, and comprehensive results. According to a Mordor Intelligence report over the 2020-2025 period, the SMD market is expected to grow with a CAGR of 7.2% during the forecast term. Major drivers of its growth include the surge in the number of infectious diseases and higher incidents of side effects linked with the use of antibiotics which demand proper diagnostics. For instance, in 2019, according to the World Health Organization lower respiratory infections were the world’s most deadly communicable disease, ranked as the 4th leading cause of death and claiming roughly 2.6 million lives. Besides, the demand for effective multiplex diagnostics for accurate and early detection of infections has also surged because of the rise in chronic obstructive pulmonary diseases (COPD). According to a piece of research published on Lancet by Joan B. Soriano, in 2017, roughly 545 million people in the world had a chronic respiratory disease, representing an increase of 39.8% compared with 1990. This upward trend is predicted to continue.

In this industry, GenMark possesses around 7% of the market share and Roche is intentioned to signif-

icantly boost that in the coming years.

Deal Structure

The takeover of one of the most attractive companies in the syndromic testing market is Roche’s way to complement its strong portfolio in molecular diagnostics and compete in this fast-growing market. To get a frame of reference of the acquisition price, we ran a comparable company analysis based on future revenue multiples comparing the target with peers of the syndromic multiplex diagnostic market and/or with companies developing similar COVID-19 testing technologies. We chose peers in a similar development stage, and when this was not perfectly accurate (i.e. for T2 Biosystems and Qiagen) we justified it because of significant similarities in the business model.

Company Name	Market Data			Revenues			EV/REV		
	Price (\$/share)	Market Cap (\$M)	EV (\$M)	LTM (\$M)	2021E (\$M)	2022E (\$M)	LTM x	2021E x	2022E x
Fulgent Genetics	96.6	2790.0	2484.4	421.7	801.8	341.6	5.9x	3.1x	7.3x
Quidel	127.9	5348.7	5137.5	1961.7	2434.7	1508.2	3.1x	2.1x	3.4x
Luminex	31.9	1504.0	1471.5	417.4	480.0	518.7	3.5x	3.1x	2.8x
T2 Biosystems	1.6	233.1	236.1	18.1	25.2	30.5	13.0x	9.4x	7.7x
Qiagen	48.7	11095.0	12565.4	1970.3	2256.7	2191.0	6.7x	5.6x	5.7x
Seegene	118.3	3094.0	2901.6	996.6	1061.8	811.2	2.9x	2.7x	3.6x
GenMark	23.9	1759.0	1800.0	171.6	192.5	213.0	10.5x	9.3x	8.5x
Average							5.9x	4.3x	5.1x
Median							4.7x	3.1x	4.7x

Figure 3: Source: Capital IQ, Own Illustration: “Comparable Company Analysis”

It can be noted that despite the estimated revenue growth, GenMark trades at relatively high forward multiples compared to peers, remaining way above average throughout the whole forecasted term. It is worth stressing that the 43% premium above share price in early February paid by Roche is in line with the relative valuation (GenMark’s EV/REV roughly 40% above average for 2022E). Despite being a sensible frame of reference, this

analysis fails to consider that Roche in this case is not interested in acquiring revenues and customers of the target, but rather its technology. The reason that the business might be worth \$1.8 bn to Roche might have nothing to do with its current revenue generation, but rather with the potential opportunity for the Swiss company to conquer the SMD market if they manage to scale GenMark's technology. Leveraging Roche's expertise, network, production facilities, and complementary technologies, we believe the probability of getting there is quite high. Altogether, we consider the apparent high premium paid to be relatively fair.

Potential Risks & Potential Upsides

When it comes to risks and uncertainties, one cannot help but emphasise the price of acquisition for a company that has not yet demonstrated a clear path to profitability. However, we believe that all conditions are in place for GenMark to accelerate its process towards positive net income, one of which is cost synergies. As pointed out by Roche Diagnostics CEO T. Schinecker, Roche produces a lot of raw material that can be exploited and has the facilities to automate parts of the operations reducing production costs.

Another question may lie in GenMark's revenue dependence from its ePlex segment, whose growth is predominantly driven by the COVID-19 outbreak. What will happen when the pandemic is under control or, one would hope, completely vanquished? It is unlikely that GenMark's revenue growth can continue on the current path in the medium term. Nevertheless, various arguments point to the fact that ePlex will not become obsolete and revenue growth will still be significantly positive. As previ-

ously mentioned, ePlex can test for 21 pathogens in one single take. When COVID-19 becomes less prevalent, ePlex will still be used but will test targets such as influenza, adenovirus, rhinovirus, respiratory syncytial virus, etc. Additionally, GenMark's technology is also used to test for gastrointestinal infections and blood infections, the market for which executives say is worth around \$1.1 billion as of 2020.

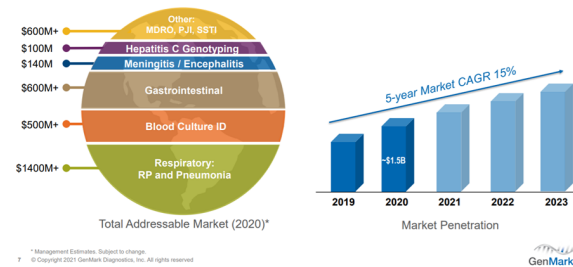


Figure 4: Source: GenMark's Investor Presentation: "Infectious Disease Market"

We believe that by leveraging Roche's undisputed know-how, GenMark will be able to complete its evolution and prove to be a leader in this growing market.

One big potential upside is the chance for Roche to expand GenMark's business operations internationally, given that the company is almost uniquely positioned in the USA at the moment. With 30 RD sites and 26 manufacturing sites in Pharmaceuticals and Diagnostics worldwide, we believe that Roche may easily exploit its international presence and network to further expand the commercial reach of the target.