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2023 Dx M&A Deals Decline as Industry Returns to Normal Post-COVID Boom

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NEW YORK – The diagnostics industry has finally completed its return to normal after three years of heavier dealmaking, as full-company mergers and acquisitions declined to pre-COVID-19 levels in 2023.

2020 and 2021 saw record highs for M&A in the industry, with 54 deals in 2020 and 72 deals in 2021. Although the number of deals slipped in 2022 to 47, 2023 has seen an even further decline: only 32 full-company mergers or acquisitions occurred throughout the year, putting it on par with the most recent low of 32 deals in 2018.

However, the industry has also seen a continued shift in the type of deals occurring – instead of full mergers or acquisitions, many companies have acquired specific assets from others. The recently announced acquisition of LumiraDx's point-of-care testing technology by Roche for up to $350 million, or the $46.5 million purchase of DiaSorin subsidiary Luminex's flow cytometry business by Cytek Biosciences, are examples of the kinds of smaller deals that increased in 2023. This analysis includes deals in the molecular and non-molecular *in vitro* diagnostic spaces that were announced in 2023, and only acquisitions of an entire company were included in the final total.

Only one deal in the diagnostics industry in 2023 topped $1 billion, and it was not a pure-play diagnostics purchase: Danaher completed its $5.7 billion acquisition of Abcam in December after announcing the deal in August. Two other deals above $1 billion, Thermo Fisher Scientific's £2.25 billion ($2.68 billion) acquisition of The Binding Site Group and SD Biosensor's $1.53 billion purchase of Meridian Bioscience, were announced in 2022 but closed in 2023. Standard BioTools and SomaLogic's merger is also valued at more than $1 billion. Although it has faced scrutiny and opposition from SomaLogic officials, on Friday, the deal was completed.

Craig Steger, director of life sciences at Outcome Capital, noted that macroeconomic concerns have been difficult to overcome for many companies because no one "knows where the markets are going to go" and there's a lot of uncertainty holding people back from making deals.

That uncertainty likely contributed to the prevalence of smaller, asset-only transactions, since in many of those deals, the acquirer is only taking the asset and what's associated with it and not any of the company's other liabilities, making it lower-risk, Steger said.

The market has largely recovered from the anomaly of COVID-19, he added. "The diagnostic flow of capital … has reverted back to the norm of pre-COVID numbers and pre-COVID investments," he said. "It's still difficult for diagnostic companies to raise money … you have to figure out how to do a little more with less."

Kristen Cook, a managing director and partner at Boston Consulting Group who covers diagnostics and life sciences, said that for smaller growth-stage companies, it was difficult to continue to fund growth in

2023. As a result, interest in merging or getting acquired by a larger firm in 2024 is accelerating.

For larger companies, meantime, while there is always interest in tuck-in deals, there was more interest in picking up growth-stage platforms. As many expected growth drivers such as bioprocessing end markets and the China market have faltered, these larger companies will be looking elsewhere for growth, including in M&A, Cook said.

"We're seeing people look to these new types of platforms rather than some of the structural dynamics that have been driving growth in the last handful of years," she said.

Shashanka Muppaneni, a fellow managing director and partner at BCG covering healthcare strategy and M&A, said that the "tone and tenor" of deals changed in 2023, as companies began looking for what they can add to their portfolio that didn't have to be scaled up. Cook echoed his point, saying that firms looked for companies that already had commercial traction in their acquisitions last year.

Steger noted that there is "a lot of money sitting on the sidelines," so deal activity may pick up in the second half of 2024. He mentioned Thermo Fisher Scientific, Danaher, Qiagen, Roche, Abbott, and Becton Dickinson as potential acquirers, as they are large players in the space and made both diagnostic and non-diagnostic deals recently, but noted that companies like QuidelOrtho and DiaSorin may also be looking for transactions, since they have had time to complete big mergers and have likely finished integrating their recent acquisitions.

Quidel completed its buy of Ortho Clinical Diagnostics in May 2022 and DiaSorin acquired Luminex in 2021.

These companies will likely not have large transformative deals but may be looking to further fill in testing menus, access new geographies, or broaden their product lines, Steger said.

Some of that deal activity may focus on point-of-care technologies, he added. There is "still a big push as technologies evolve to get closer to the patient," and much of the technology that emerged from the COVID-19 pandemic may be of interest to acquirers.

One possible target in the point-of-care space may be Cue Health, which had a significant amount of government funding and success in the COVID-19 market but has struggled to flourish without COVID-19 testing as a main revenue source. Many point-of-care companies like Cue have struggled because their business model doesn't fit in the point-of-care or at-home testing space: they have expensive tests and readers that most people aren't willing to purchase when antigen tests are available, Steger said.

The laboratory industry has seen consolidation throughout 2023, and Steger said he expects that to continue as larger companies pick up smaller laboratories or tests to broaden their testing menu. The potential outcome from the US Food and Drug Administration's proposal to regulate laboratory-developed tests could also impact testing companies. If reimbursement and regulatory guidelines change, many firms may consider merging or selling testing assets because they can no longer afford to offer certain products, Steger said. A resolution on the LDT proposal may also "drastically impact the value" of some diagnostic companies, and larger companies could "go out and just pick off" the assets they want from smaller firms, he added.

Consolidation will be a theme going forward in general, Canaccord Genuity analyst Kyle Mikson said. Companies that went public during the COVID-19 boom and are now struggling may be interested in combining with other small companies, he said.

Overall, firms in a good cash position with large addressable markets would be attractive M&A targets. Mikson cited 10x Genomics, Natera, Castle Biosciences, Exact Sciences, and Quanterix as firms of interest. Natera and Exact Sciences both have "pretty high visibility to solid revenue growth going forward" and are players in the large markets of colorectal cancer and minimal residual disease, he noted. Exact Sciences is profitable today and its flagship Cologuard product is set for continued growth, while Natera is expected to reach breakeven by the end of the year and has a solid core business, Mikson said.

BCG's Cook also said that "for assets at the right stage of maturity, anything that's available is going to have a lot of interested suitors." As a result, "the deals that do happen may be quite competitive."

She added that there has been a lot of interest in the spatial biology and multiomics spaces, as well as in liquid biopsy and blood-based testing, although there is still much to work through in terms of market access and adoption. Muppaneni added that next-generation sequencing also continues to be a focus area, along with single-cell sequencing and proteomics.

"It's a question of which of these companies, across any of these spaces, have enough runway left to get to a commercial stage where they either become interesting acquisition candidates or, frankly, will run out of cash and hence have to go to an asset sale," he said.

Mikson added that spatial biology, protein sequencing, and liquid biopsy for cancer screening, while areas of interest for acquirers, will likely not see " transformative huge price tags for those sorts of deals" as they are earlier-stage technologies.

In a report to investors from October after Thermo Fisher Scientific announced its purchase of Olink, BTIG analyst Mark Massaro noted that he believes the next wave of M&A candidates will be "accretive to the acquiring company's revenue growth," as well as "highly synergistic" and accretive to the acquirer's EBITDA one full year after the deal closes.

"There are major cost synergies (from redundant sales teams, management, R&D, and facilities) that could be realized which we believe should prompt the next wave of deal-making," he added.

The initial public offering market, meantime, has seen a complete reversal of fortunes since the boom of 2021, when there were more than 19 companies in the diagnostics industry that went public. In 2023, there were none. However, Mikson noted that the IPO outlook may improve toward the end of 2024 if the capital markets get better, although whether that happens remains to be seen.

"It's unclear how healthy that pipeline is, but I think we finally will see some in 2024, definitely weighted toward the back half of the year," he said.

BCG's Muppaneni was slightly more cautious, saying that while there is potential for a late-2024 IPO window, the bar will be very high for any company to go public. "It's got to be a very high-quality asset that's got to come to market," he said.

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