

Avacta

Diagnostics M&A-led growth strategy is ready to Launch

18 October 2022

- Avacta intends to acquire [Launch Diagnostics](#), an *in-vitro* diagnostics (IVD) distributor based in the UK for £24m in cash, plus a potential future performance based earn-out, capped at £13m, payable if there is a recovery in future COVID test revenues above an agreed base level. The acquisition will be financed by a £7m placing at 95p per share, an open offer of up to £2m, and a convertible bond of £55m (due 2027 at a 25% conversion premium to the offer price, and with a 6.5% annual coupon payable quarterly in cash or shares). The deal, expected to close on 21 October, is contingent on securing >£45m in convertible bonds.
- Launch Diagnostics is a UK based, profitable, privately held, independent distributor that was established in 1990. It supplies diagnostic reagents and instrumentation from global manufacturers to public and private healthcare systems for pathology applications, predominantly to the NHS in the UK, with a smaller presence in Belgium, Luxembourg, and France. Revenues in 2021 were £32.8m, with 73% from the UK. Gross margin has been consistent at c 44-50% since FY19. FY21 adjusted EBITDA was £8.5m with a Profit Before Tax of £9.4m.
- Launch Diagnostics' revenues have benefitted from COVID-19, with this impact diminishing rapidly to a sustainable base level related to symptomatic hospital testing. Non-COVID FY21 sales were £14.2m and are expected to recover to pre-pandemic levels (FY19: £18.5m) as customers return to typical ordering patterns. Customer contracts are relatively 'sticky', lasting 3-5 years with 95% repeat business.
- Avacta's Diagnostics Division is focused on in-house development to build a broad IVD product portfolio for consumer and professional use while also pursuing a M&A led growth strategy to help scale this and create a profitable diagnostics business longer-term. Avacta's ambitions across decentralised testing target four key areas: respiratory infections, cardiovascular disease, cancer, and general health and well-being. Through focused M&A, such as with Launch Diagnostics, Avacta could expand its product range, geographical reach, and leverage potential cross-selling opportunities.

Price	99p
Market Cap	£259.9m
Primary exchange	AIM
Sector	Healthcare
Company Code	AVCT
Corporate client	Yes

Company description:

Avacta owns two novel technology platforms: Affimer and pre|CISION. Affimer proteins are antibody mimetics being developed as diagnostic reagents and oncology therapeutics. pre|CISION, the most advanced, improves potency and reduces toxicity of cancer drugs by only activating them inside the tumour. Success in clinical trials would be transformative for Avacta.

Trinity Delta view: The acquisition of Launch Diagnostics, at an undemanding 1.35x sales multiple (based on an 80% discount to COVID revenues), is the first step in Avacta's M&A-led growth strategy for its Diagnostics Division. Launch Diagnostics will provide Avacta with a commercial infrastructure in the UK and some EU markets, to which complementary products could be added either organically through in-house development or sought externally. The latter potentially provides the opportunity for Avacta to leverage its internal expertise and platform technologies to optimise performance and economics. The proposed up to £64m gross financing would provide the balance sheet flexibility to explore such opportunities. As usual, we suspend our valuation and forecasts until deal completion.

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