

# Bloomberg

Roche Seen Offering Illumina 24% More for Gene Mapping: Real M&A

Bloomberg, by Naomi Kresge and Charles Mead

Jan. 26 (Bloomberg) -- Roche Holding AG may need to raise its \$5.7 billion bid for Illumina Inc. by the most of any North American takeover to gain access to its gene-mapping technology, according to arbitrageurs who bet on mergers and acquisitions.

Illumina, the San Diego-based company in a race to develop a machine able to parse the building blocks of life in a day, jumped to \$55.15 yesterday, 24 percent above Roche's proposal of \$44.50. That signals traders are more convinced Illumina will receive a higher offer than any other pending deal in North America, according to data compiled by Bloomberg.

Roche, which in two previous successful hostile takeovers under Chairman Franz Humer increased its initial offers by 6.7 percent and 19 percent, may be willing to boost its bid this time because Illumina's technology for mapping genes is more advanced than its competitors, Helvea SA said. Roche, the world's biggest maker of cancer drugs, could eventually pay \$60 a share, or 35 percent more than the current proposal, according to Robert W. Baird & Co. and Water Island Capital LLC.

"There's no company quite like Illumina out there that they could buy," Karl Heinz Koch, a Zurich-based analyst at Helvea, said in a telephone interview. "They're unique with very advanced technology, extremely expensive machines. It complements the Roche offering perfectly, especially when you look at how the pharmaceutical market is evolving."

Daniel Grotzky, a spokesman for Basel, Switzerland-based Roche, declined to comment and referred to statements that Chief Executive Officer Severin Schwan, 44, made in a conference call with reporters yesterday.

## Fair Value

Schwan said on the call that Roche has no intention of raising its bid and that the proposal is "attractive and compelling" and offers "full and fair value." Roche, which also said Illumina was "unwilling to participate in substantive discussions" after approaching it last month, intends to take its offer directly to shareholders.

Illumina's board of directors will review the proposal and make a recommendation to shareholders in due course, it said in a statement yesterday. Cassandra Bujarski, a spokeswoman for Illumina, declined to comment beyond the statement.

While Roche's offer was 18 percent higher than Illumina's price on Jan. 24, shares of Illumina had already rallied 45 percent from an almost three-year low in December as speculation emerged that it was a takeover target.

On Dec. 21, a week after Roche said it first met with Illumina's CEO and chairman to discuss its interest in buying the company, Schwan said in an interview with Bloomberg News that Roche would be ready to "seize" the right opportunity.

'Crystal Ball'

Quintin Lai, an analyst at Robert W. Baird in Milwaukee, said Roche is more likely to raise its offer price to at least \$60 a share to complete the deal rather than walk away. Illumina, which surged 46 percent yesterday to \$55.15 a share, could help Roche maintain its lead in cancer treatments as doctors turn to gene mapping to personalize oncology therapies, he said. Roche has more than twice the market share for cancer drugs as its closest competitor, according to data compiled by Bloomberg.

“When Roche looks into its crystal ball, I think it sees that sequencing is going to be a cornerstone of the decision-making on what drugs to give patients,” Lai said. “If they can make the drug, that’s great, if they can be part of it from a diagnostic point of view, even better.”

At \$60 a share, Illumina would be worth \$7.5 billion, which may be a starting point for any potential agreement, said Matt Osowiecki, a New York-based senior analyst at Water Island Capital, which manages the \$2.8 billion Arbitrage Fund.

### Bidding Contest

“Roche is committed,” he said in a telephone interview. “If it’s anyone’s company to buy, it’s Roche’s.” Keith Moore, an event-driven strategist at MKM Partners in Stamford, Connecticut, said a bidding contest for Illumina could emerge and may attract General Electric Co., Life Technologies Corp., Siemens AG or Novartis AG.

JoAnna Morris, director of corporate investor communications at Fairfield, Connecticut-based GE, didn’t immediately return a telephone call seeking comment outside normal business hours.

Mauricio Minotta, a spokesman for Carlsbad, California-based Life Technologies, Annie Seiple, a spokeswoman for Munich-based Siemens, and Julie Masow, a spokeswoman for Novartis of Basel, all declined to comment on whether their companies were interested in acquiring Illumina.

“The list of potentially interested strategic parties could be surprisingly long,” Tycho Peterson, an analyst at JPMorgan Chase & Co. in New York, said in a report to clients yesterday. He boosted his estimate for Illumina to \$70 a share.

### Too Optimistic?

Sachin Shah, a Jersey City, New Jersey-based merger arbitrage strategist at Tullett Prebon Plc, said traders betting on such a large increase from Roche may be too optimistic.

Roche bought Tuscon, Arizona-based Ventana Medical Systems Inc. for \$89.50 a share in February 2008 after raising its hostile bid by 19 percent from \$75 a share, data compiled by Bloomberg show. Roche persuaded Genentech Inc. of South San Francisco, California, to accept its takeover offer in March 2009 after increasing its original proposal by 6.7 percent.

“The sky is not the limit because Roche is frugal – they want the deal to get done where it makes sense,” Shah said in a telephone interview. In addition, “nobody really wants to go head to head with Roche. It would be a modest increase because that’s how Roche does it,” he said.

Siemens, which partnered with Illumina in November to work on genome sequencing devices, and Novartis aren’t interested in bidding, according to people familiar with their plans, who declined to be identified because the matters are private.

### Illumina Options

Options traders are still increasing their bullish wagers on Illumina, indicating they anticipate a higher bid, according to Lillian Seidman-Davis, a strategist with a concentration in health-care companies at Miller Tabak & Co. in New York.

Trading of call options giving the right to buy Illumina shares soared to a record 67,349 contracts yesterday. The March \$60 calls accounted for 7.2 percent of all call volume, according to data compiled by Bloomberg.

**“It’s clearly a low-ball offer, and Roche knows it,” said Jean-Francois Comte, co-founder of Lutetia Capital, which manages a \$100 million event-driven fund in Paris. “It will never be accepted” at the current level, he said.**

Buying Illumina would give Roche technology for reading the genetic makeup of tumors, potentially allowing the company to offer treatments specific to individual patients. Illumina said Jan. 10 that it would market in the second half of the year its HiSeq 2500 machine that can sequence a genome in a day.

#### ‘Deal Squatter’

The current Illumina machines can sequence five human genomes in 10 days, according to the company.

Life Technologies also announced Jan. 10 it was taking orders for a sequencer designed to provide a full transcript of a person’s DNA, as deoxyribonucleic acid is commonly known, in a day. DNA contains genetic information that determines differences in living organisms.

Roche will use its global reach to move genome sequencing beyond academic labs and into patient treatment, Daniel O’Day, the company’s head of diagnostics, said yesterday. The company has begun the process of nominating candidates to Illumina’s board to be considered at the annual meeting, Schwan said yesterday on a conference call. Roche said it already owns a “very small” amount of Illumina shares.

“Roche is a deal squatter -- they move into a stock and have no intention of leaving until they get what they want,” Louis Meyer, a special situations analyst at Oscar Gruss & Son Inc., said in a telephone interview. “They’re going have to raise their bid to get what they want.”

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