LONDON, UK (GlobalData), 20 April 2012 - F. **Hoffman-La Roche** dropped its **bid to buy** the **gene-sequencing** leader **Illumina** this week after Illumina's shareholders made it clear at the company's annual meeting that the terms were inadequate. Roche had made a $51 per share tender offer for San Diego-based Illumina, but will allow the offer to expire today. Late last year Roche offered $40/share for Illumina, eventually increasing the offer to $44.50 and then $51 per share. Despite Roche's aggressive overtures, Illumina's management made it clear throughout the process that they had no interest in an acquisition. This was made apparent not only through strongly worded letters, but by Illumina's refusal to open the books and begin negotiations with Roche. If this had happened, Roche would likely have completed a deal. Illumina shares may attain their promised valuation or may continue in the doldrums, but either way Roche is unlikely to take another bite at the apple.

The pharmaceutical giant indicated that they would be willing to go higher in a negotiated deal, and they certainly have the means to do so. Considering Roche's goals for the acquisition, however, going hostile does not make sense. What the company was looking for here was to add a new, innovative business unit that would maintain its own research and development organization. Of course, Illumina also has an established product line and steady revenue stream, so Roche would have become a sequencing company. Taking all of these things into consideration, it is likely that Roche wanted Illumina CEO Jay Flatley and his team to continue to run Illumina. Going hostile would have alienated management and left employees disgruntled.

After losing their bid to buy Illumina, Roche is not likely to go after a smaller sequencing company. If they had been after disruptive technology there are other, much cheaper companies they could have acquired, such as Oxford Nanopore, Helicos, or Pacific Biosciences. The larger goal of this acquisition has always been apparent – to integrate sequencing into the development of drugs and, in turn, use the technology to diagnose disease. While Roche would continue to gain revenue by selling the sequencing technology, the ultimate goal was to drive pharmaceutical sales. As we have written previously, it did not appear that Roche would look for the standard cost-cutting measures and expansion of markets to pay for the Illumina deal. The only way the acquisition made sense was for Roche to

springboard to stronger pharmaceutical sales.

In the end, though, Roche may be better off without this ambitious in-house program. While it may seem attractive to be able to offer researchers, doctors, and hospitals an all-in-one platform to assist with the diagnosis and treatment of disease, this approach has drawbacks. Roche could have found itself trying to sell proprietary sequencing technology while other companies were relying on generic, plug-and-play diagnostics. Much like purchasers of Macintosh products before Apple's revitalization, customers could have on one hand chosen a fully-integrated but proprietary, and therefore expensive, technology platform. Or on the other hand a platform that might not have been quite as good, and a little harder to use, but could be used and supplied in a variety of ways. If such a situation presented itself, doctors and hospitals would be very likely to choose the broad application of a more open sequencing platform. It is probably better if, after all, Roche is not left touting HD-DVD while all of their customers are switching to Blu-Ray.