Bristol Myers Squibb has spent the most on M&A, R&D and licensing since 2017, and Eli Lilly the least. Guess which strategy is working best.

The world’s largest drug developers invested a combined $183bn on R&D, M&A and licensing deals in 2021. While this is a huge sum, it also represents a fairly sizeable dip versus the previous two years.

A jump in spending on in-house development last year - boosted by Covid-related R&D bills - failed to offset a pullback in deal-making. Signs are growing that 2022 could be another down year for these sector giants, with much pandemic-related clinical work ending and a muted start to the year for big pharma’s business development teams.

The chart below shows the combined spend of the sector’s 11 big pharma companies - named in the second chart below - based on reported figures and deal data collected by Evaluate Pharma. The analysis includes these developers’ three major areas of investment: R&D, where costs include exceptional items; licensing deals, tallying up-front fees only; and M&A transactions, where only the initial fee is counted for deals with downstream or contingent payments.

All numbers are adjusted for inflation.
Spending on business development is typically opportunistic, so deal investment trends, in terms of dollars spent, will always be lumpy year to year. Still, it is interesting that up-front licensing costs have hovered around the $5bn mark for this group over the five years (toggle the chart’s legend to deselect categories).

A big uptick in R&D spend over the pandemic years is also readily apparent, and a closer look at this cost line can be read here.

The second chart here splits out this combined spend by company. Those that have struck sizeable acquisitions in this period lead the pack, of course. Bristol Myers Squibb’s $74bn takeover of Celgene and the $63bn move on Allergan by Abbvie were the two mega-mergers of this period.

Licensing fees are, comparatively, a tiny area of investment, though it is clear that some big pharma groups are keener on this bet hedging than others. For example, Sanofi is the fourth-largest spender on M&A over the period, but paid the least in licensing up-fronts, deploying only $1bn.

Roche has taken the opposite approach, spending the least on M&A but footing a $4bn licensing bill, one of big pharma’s highest, over the five years in question.

And, make no mistake, these patterns of cash allocation are the result of strategic decisions made by executive teams. J&J’s chief executive, Joaquin Duato, recently pointed out that this company’s investments in organic R&D and externally sourced innovation had been about equal over the past five years.

This means that it is also important to measure what these various approaches are delivering. This can be done in many ways; the final chart below uses forecast sales growth, according to sellside consensus, plotted against the historic spend above.
Rapid future growth for minimal investment is clearly the ideal scenario, which would put companies in the top left hand side of the chart below. Kudos to Lilly, then, a company that has not indulged in major M&A while extracting substantial clinical success from internally developed assets.

Bristol Myers appears to be in the worst position, although the recent patent expiry of Revlimid, which was a large motivation for the costly Celgene deal, arguably makes its situation look worse that it is. The company could certainly use more revenue drivers, however, as another recent Vantage analysis, looking at freshness, concluded.

This is a picture that can quickly change, of course, with fresh business development deals or clinical successes. And as long as these groups’ investments deliver valuable assets, investors are probably not too concerned about whether the source is internal or external.

Splashy spending for minimal return is a problem, however, and the sector seems to have concluded that mega-mergers risk this exact scenario. With executives almost across the board claiming to be focused on small bolt-ons - which recent deal data seem to bear out - perhaps more prudent times are here for big pharma.
5-year combined spend vs. future sales growth

2017-2021 combined licensing, M&A, and R&D spend

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