EXECUTIVE INSIGHTS

Oncology BD&L: Winning in an Increasingly Competitive Environment

Key takeaways

1. Oncology leads biopharma business development and licensing (BD&L), accounting for about 50% of global deal volume. Growing oncology pipelines provide a rich set of BD&L targets, with emerging biopharma now accounting for 60% of all oncology trials.
2. Since 2020, large pharmas have shifted to later-stage dealmaking to secure near-term, de-risked revenues in response to upcoming patent cliffs and the impact of the US Inflation Reduction Act.
3. BD&L is crucial for accessing innovation, with antibody drug conjugates (ADCs) and multispecifics now representing 35% of early-stage transactions, up from 10% in 2019. BD&L is often more viable than in-house origination of these modalities.
4. China has become a significant source of oncology innovation, contributing around 30% of all oncology licensing deals in 2023 as its R&D increasingly focuses on novel mechanisms.

Introduction

Oncology is the single largest therapeutic area for global pharmaceutical sales, accounting for c.18% of all prescription drug sales in 2023 – a substantial increase from c.13% in 2018. This growth, exceeding 10% p.a. over the past five years, has been driven largely by innovative drug launches and expanding treatment accessibility. High unmet patient needs and substantial commercial potential continue to attract a breadth of biopharma

organisations. Companies outside the top 10 oncology players now generate c.45% of all oncology revenues, up from c.30% five years ago, with small and mid-sized biopharmas carving out niches in specific tumours or treatment modalities.

Oncology thrives on innovation given the degree of unmet needs across tumour types. As a result, it dominates the global drug development pipeline, representing c.40% of all assets in clinical development. Biopharma companies of all sizes compete for the most innovative assets at all stages of drug development. Regardless of their internal capabilities, leaders in oncology rely on external innovation to supplement their internal R&D or as a sole source of pipeline assets.

In our recent *Executive Insights* focused on biopharma M&A deals, we observed that oncology represents the most significant area of M&A dealmaking. Oncology also dominates biopharma business development and licensing (BD&L), accounting for c.50% of global deal volume. Growing oncology pipelines provide a rich set of BD&L targets, with emerging biopharma now spearheading c.60% of all oncology trials, compared with 33% a decade ago. Reduced public market valuations mean many biotechs require BD&L proceeds to lengthen their cash runways in order to invest in further groundbreaking innovation.

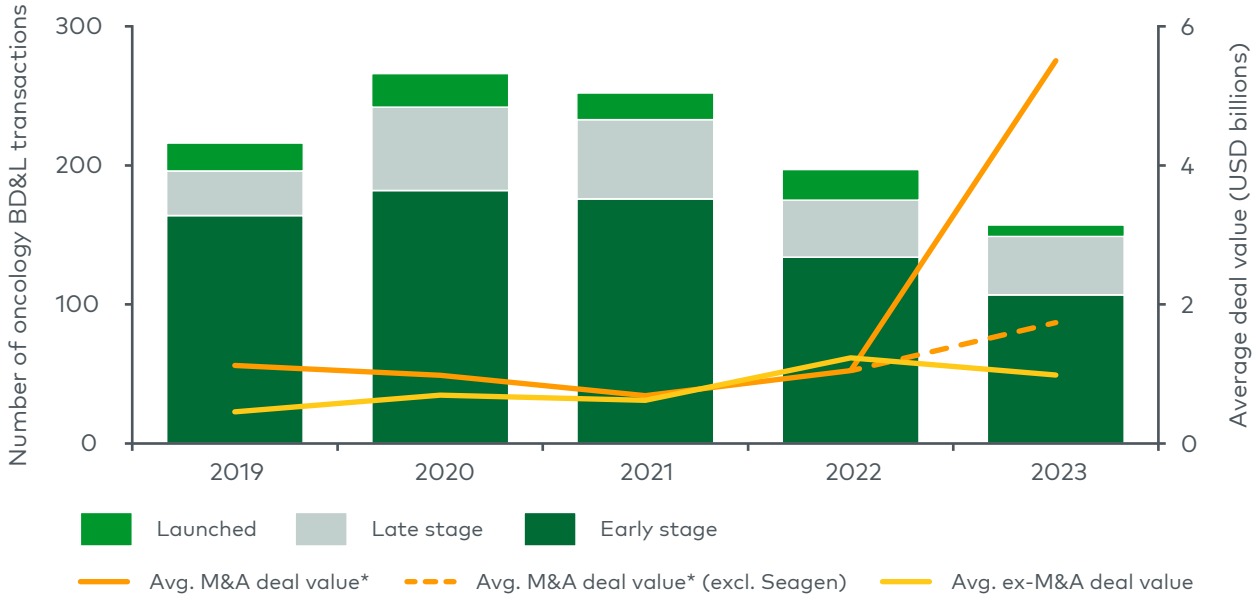
In this *Executive Insights*, we review the past five years of BD&L dealmaking in oncology and outline what it takes for small to large biopharma organisations to win in this increasingly competitive space. We have considered all global oncology deals between 2019 and 2023, including M&A, licensing, collaborations and co-promotions, and excluded deals for non-pharmaceutical products (e.g. companion diagnostics, manufacturing agreements).

A shift towards late-stage dealmaking

Oncology BD&L transactions peaked in 2020, coinciding with the highest levels of broader biotech funding, deals and initial public offerings. While the total number of BD&L transactions has decreased since 2020, larger transactions have remained resilient, particularly those of late-stage and launched assets. The average oncology M&A deal value in 2023 was higher than any of the previous four years, and 1.8x the 2019-22 average more than trebling between 2021 and 2023, even when the contribution of Pfizer's $43bn acquisition of Seagen is excluded from the analysis (see Figure 1).

Figure 1

Trends in deal volume/value (2019-23)



Notes: *Total deal value at signing, excludes deals with undisclosed values
Source: L.E.K. research and analysis of Cortellis, company investor materials and press releases

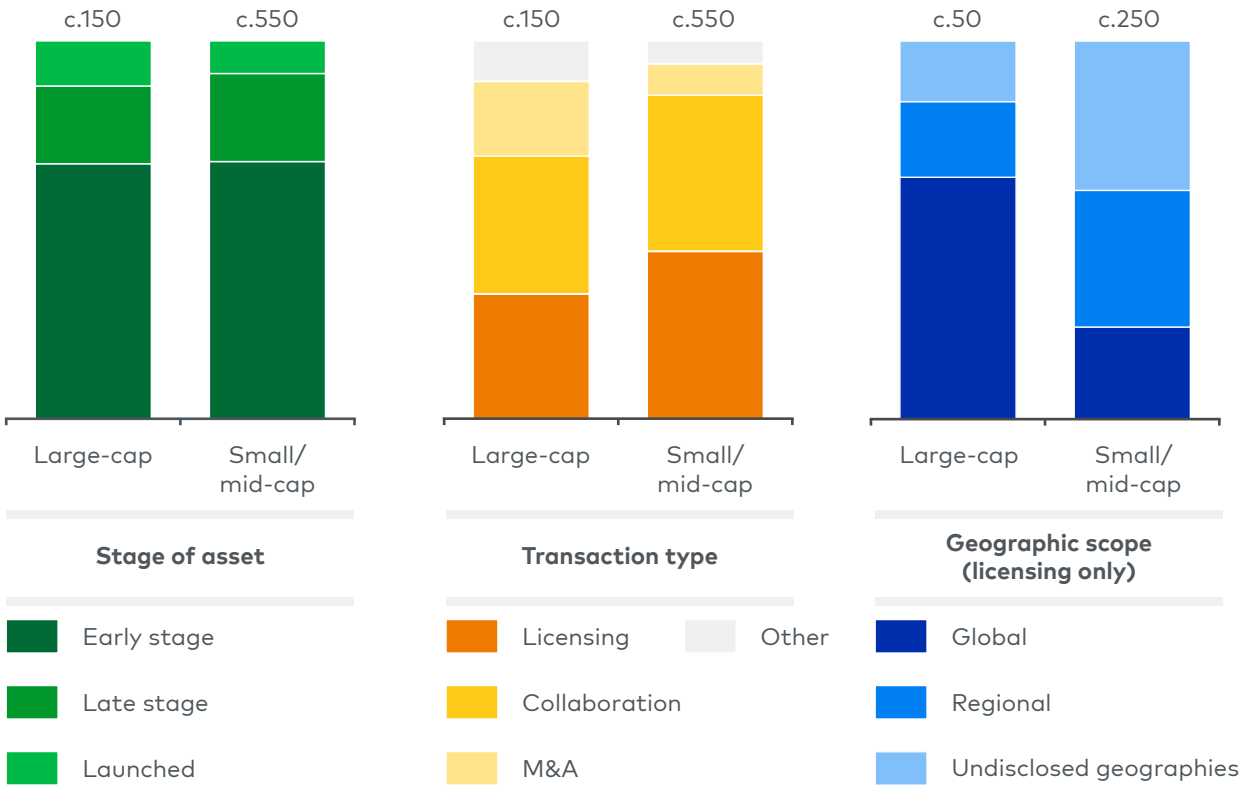
The shift to higher-value, later-stage deals highlights the preference for biopharmas to secure nearer-term revenues with higher certainty. This reflects the requirement to compensate for headwinds to inline portfolios, including impending patent cliffs and the Inflation Reduction Act in the US.

Competition for attractive oncology assets is intense across all development stages, but particularly for late-stage opportunities. The proportion of oncology deals executed by small/mid-cap buyers reached a peak of >80% in 2021. Big pharma has increased its share of deal volume in recent years, with these buyers accounting for c.35% of all transactions since 2021. Compared to their smaller peers, large-cap pharmas have a greater affinity for transacting already-launched assets, typically via M&A, with their deep cash reserves allowing them to pay the premium for de-risked assets (see Figure 2).

While deal premiums today are higher than they were a decade ago across therapeutic areas, nowhere is this more apparent than in oncology, with four whole-company acquisitions fetching premiums in excess of 200% in the past five years (2019-23). Given their financial firepower, large-cap companies opt for M&A transactions twice as frequently as small/mid-cap buyers, who opt for licensing deals in 45% of transactions. Licensing deals permit smaller buyers to transact at a regional level aligned with their existing footprint, deals for which large-cap pharmas typically have less interest.

Figure 2

Oncology BD&L transactions, by company size (2019-23)



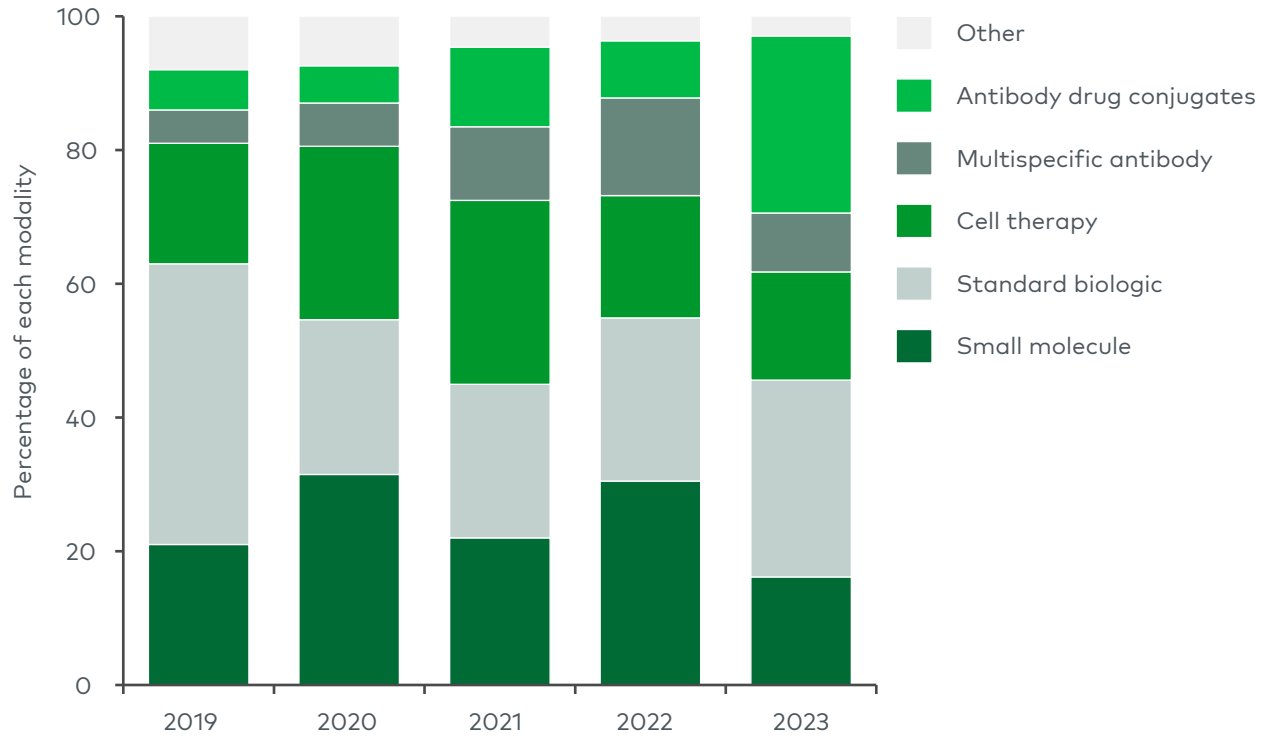
Source: L.E.K. research and analysis of Cortellis, company investor materials and press releases

The rise of ADCs and multispecifics

BD&L has become an increasingly important strategy for both large and small/mid-cap pharmas to access innovation, particularly in novel modalities where biotech companies have been at the forefront of discovery efforts. ADCs and multispecific antibodies now represent 35% of all early-stage transactions, up from only 10% in 2019 (see Figure 3). For these modalities, BD&L is often a more viable strategy than development of in-house capabilities, given the need for validated technology platforms and highly specialised expertise. Conversely, cell therapies, which represented c.25% of deals as recently as 2021, have seen a recent decline in deal share. This shift reflects growing recognition of the challenges in development, access and commercialisation of these therapies.

Figure 3

Early-stage BD&L deals, by type of modality (2019-23)



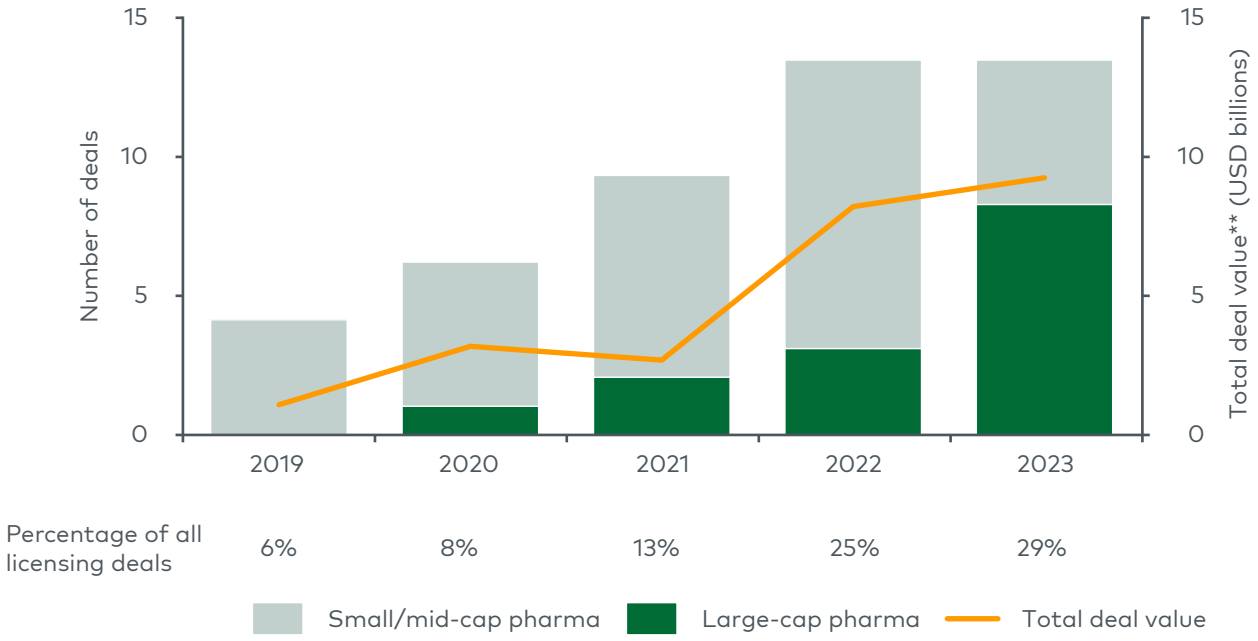
Source: L.E.K. research and analysis of Cortellis, company investor materials and press releases

China as a growing source of innovation

China has emerged as an important source of oncology innovation over the past five years, with Chinese-headquartered companies the source of c.30% of all oncology licensing deals in 2023 (see Figure 4). China has attracted both large and small/mid-cap licensees as domestic R&D increasingly focuses on novel mechanisms and modalities. Oncology has been at the leading edge of this surge in innovation, with clinical trial starts in China for ADCs and bispecific antibodies growing at compound annual growth rates of c.70% and 125%, respectively. As global biopharma accumulates experience of Chinese-led innovation, large biopharma companies have shown increased interest, culminating in a more than tenfold increase in total deal value since 2019.

Figure 4

Oncology licensing deals originating from China, by company size* (2019-23)



*Including Chinese licensors and excluding Chinese licensees; **including only disclosed deal values
Source: L.E.K. research and analysis of Cortellis, company investor materials and press releases

Conclusions and implications

The oncology transaction landscape is becoming increasingly competitive, characterised by fewer but more expensive deals commanding higher premiums. Innovation sources are evolving, increasingly coming from novel modalities and geographies. Successful execution in this rapidly evolving environment requires well-structured scouting and screening processes. Teams wishing to transact in oncology must consistently monitor the landscape and upcoming events of companies of interest. They should be ready to move quickly after key readouts to appraise the asset and approach the company with an up-to-date, attractive offer.

Success in this context demands that all biopharmas adopt robust, well-structured diligence processes to ensure they can offer their most competitive, yet still affordable, deal terms. For small/mid-cap pharmas that cannot compete with the deep pockets of large pharmas for global deals, strategic focus is crucial. This requires careful determination of specific assets, deal types and geographical areas where they can offer competitive terms. This may involve focusing on specific tumour types or call points for licensing deals in select geographies.

Anne Dhulesia and Sean Dyson are Partners in our European Life Sciences practice. They support oncology players on a number of key strategic topics: BD support (screening and opportunity evaluation), portfolio planning, R&D strategy, and commercial strategy including launch preparation. For more information or for a discussion, please reach out to the team below.

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