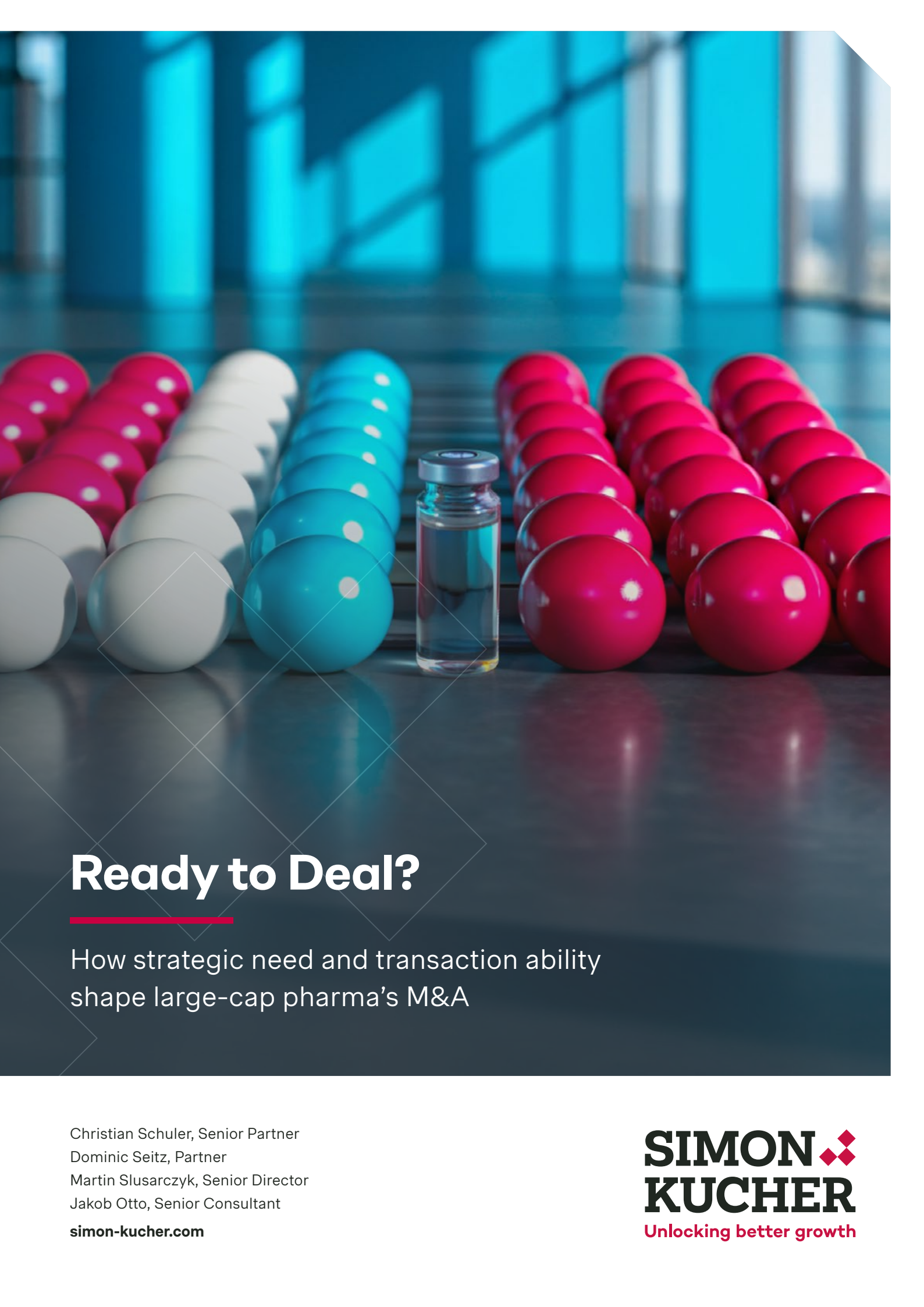




Ready to Deal?

How strategic need and transaction ability
shape large-cap pharma's M&A

Christian Schuler, Senior Partner
Dominic Seitz, Partner
Martin Slusarczyk, Senior Director
Jakob Otto, Senior Consultant
simon-kucher.com

SIMON 
KUCHER
Unlocking better growth

Contents

Executive summary	3
Introduction	4
What creates the right conditions for dealmaking?	5
Conditions expected to shape strategic needs	6
Conditions expected to shape transaction ability	8
Methodology	9
Learning 1: Strategic need alone does not make buyers deal-ready	11
Learning 2: M&A and licensing are two solutions to the same problem	13
Learning 3: Transaction ability goes beyond liquidity	15
Learning 4: LoE matters but is not a simple short-term deal trigger	17
Learning 5: Pipeline effects point to M&A, specialization to licensing	19
Illustrating deal readiness through Transaction Need Ability Matrix	21
Conclusion	24
Authors	25

Executive summary

Major pharmaceutical transactions such as M&A or in- and out-licensing are not driven by a single variable. Target quality, strategic fit, macroeconomic conditions, and capital-market dynamics clearly influence deal activity. Yet they do not fully explain why companies facing similar external pressures or opportunities behave differently. The missing layer is buyer readiness: the buy-side conditions that determine whether a company has both a reason to transact and the financial capacity to act. These factors are especially relevant because decision-makers can influence them more directly than target availability or market conditions, even though they are less commonly examined. This whitepaper, therefore, focuses on the buy-side conditions in place when large-cap pharmaceutical companies pursue M&A and licensing, and on how those conditions shape which deal type is the most realistic.

This research analyzes 810 announced buy-side transactions between 2020 and 2025 across 47 publicly listed large-cap innovative pharmaceutical companies. It separates deal readiness into two dimensions:

- **Strategic need to transact** shaped by loss-of-exclusivity exposure, pipeline strength, portfolio specialization, and shareholder returns
- **Transaction ability** shaped by leverage, valuation, cash generation, liquidity, and financial flexibility

Five key findings emerge from the analysis. First, strategic need alone does not make buyers deal-ready. Weak pipelines or specialization demands may create a deal rationale, but financial ability determines whether a company can act. Second, M&A and licensing address the same external-innovation problem, but M&A appears more constrained by financial capacity. Third, transaction ability goes beyond liquidity. Leverage, valuation, cash generation, and financing flexibility shape the feasible deal set. Fourth, pressure from upcoming LoE events matters, but not as a simple short-term trigger. The response window often begins years before revenue erosion. Fifth, weaker pipelines point more clearly to M&A, while specialization points to licensing, as focused companies use targeted access to strengthen priority franchises.

The **Transaction Need/Ability Matrix** brings these findings together into a practical framework for assessing deal readiness. It helps distinguish active, constrained, opportunistic, and low-probability buyers, and clarifies when large-scale M&A is realistic, when licensing is more appropriate, and when external deal activity is unlikely.

Introduction

When Merck & Co. agreed to acquire Verona Pharma for approximately USD 10 billion in July 2025, the official rationale was that Verona's Ohtuvayre, a first-in-class COPD maintenance treatment already approved in the United States, offered Merck a commercially attractive growth asset in a major chronic disease area (Merck & Co. 2025). However, industry experts pointed to another factor influencing Merck's decision to pursue Verona Pharma. The looming 2028 loss-of-exclusivity (LoE) for Keytruda in the US, a drug that accounted for more than 54% of Merck's pharmaceutical sales in 2025, pressured Merck into acting (Merck & Co., 2026). When a company faces future erosion from a leading franchise, external innovation becomes relevant long before the revenue loss appears in reported results.

LoE pressure is just one of several underlying buy-side conditions that affect the degree to which a company pursues external innovation in the form of M&A and licensing. This whitepaper, written in collaboration with the NOVA School of Business and Economics in Lisbon, Portugal, aims to show which conditions are usually prerequisites for dealmaking and why some companies act on these pressures while others do not.

By analyzing 810 announced buy-side pharma transactions between 2020 and 2025, covering 47 publicly listed large-cap innovative pharmaceutical companies, the whitepaper investigates how strategic need and transaction ability shape M&A and licensing activity. It focuses on three areas of interest:

1. **The conditions that create strategic need:** How LoE exposure, pipeline weakness, increased specialization, and investor expectations increase pressure to look outside the company for growth and renewal
2. **The factors that determine transaction ability:** Why the ability to execute different deal types depends not only on cash, but also on leverage, valuation, and profitability
3. **The practical implications for M&A and licensing strategy:** How decision-makers can use a "Transaction Need/Ability Matrix" to assess deal readiness and identify the appropriate deal mode.

What creates the right conditions for dealmaking?

The answer starts with a simple distinction. Strategic pressure explains why a company looks outward for innovation or replenishment of capabilities. Transaction ability explains whether that pressure can become an executable acquisition, licensing agreement, or other external innovation route.

Strategic need creates the reason to transact. Transaction ability determines whether that reason can be acted on.

For senior decision-makers, this distinction matters because strategic urgency and executable capacity do not always move together. A company may face a major LoE event and still lack the balance-sheet flexibility, valuation support, or cash-flow capacity to pursue a large transaction. Another company may have significant financial headroom but limited immediate portfolio pressure, making it more likely to act selectively when attractive assets become available. Assessing deal readiness is therefore critical but requires separating the reasons to transact from the capacity to transact.

Dealmaking pressure may arise from three sources. First, target attractiveness (most often referenced as the underlying reason for deals in press releases). Second, macro-economic and regulatory factors such as interest rates, most-favored-nation policy (MFN), or the Inflation Reduction Act (IRA). Lastly, buy-side firm-level attributes such as size, R&D pipeline, LoE risk, or level of specialization. While target quality and macro conditions clearly matter, they do not fully explain why companies with similar external pressures behave differently. Additionally, decision-makers can only directly influence the last category, which is, conversely, the least researched. Therefore, this whitepaper focuses specifically on the buy-side conditions in place when large pharmaceutical companies pursue major transactions. It does so by assessing a variety of conditions that either create a strategic need or financial capacity to transact.

The next chapters provide the theoretical foundation for the conditions chosen to be tested. They are derived from prior pharmaceutical M&A literature. While this list is not exhaustive, it captures eight of the most prominent and relevant buyer-side conditions expected to shape deal activity.

Conditions expected to shape strategic needs

1. Future patent loss creates portfolio-renewal pressure

The looming patent expiry of Keytruda in 2028, a drug that accounted for more than 54% of Merck's pharmaceutical sales in 2025, illustrates the strategic pressure to replace expiring assets. All innovative pharmaceutical companies face finite periods of patent-protected revenue and may use external transactions to renew portfolios when future revenue streams are exposed. Prior pharmaceutical M&A research links acquisitions to patent losses, pipeline gaps, and excess cash (Danzon, Epstein, and Nicholson 2007), while more recent work connects LoE pressure to acquisition decisions (Song and Han 2016; Arroyabe 2021). With more than USD 230 billion in revenue exposed to LoE until 2030, the relevance of portfolio renewal through external innovation will be high (Lauks et al. 2025; Gores, Harries, and House 2026). Therefore, increased LoE pressure is expected to lead to greater deal activity.

2. A weak R&D pipeline incentivizes companies to look outward for innovation

Pipeline strength captures the condition of a firm's internal R&D capabilities. Weaker pipelines can signal lower future revenue potential, thereby creating strategic pressure to counteract this decline. Thus, weaker pipelines can increase the need to source assets externally, either through acquisitions or licensing. This logic is consistent with the broader view that external dealmaking reflects strategic need when internal development capacity is insufficient (Danzon, Epstein, and Nicholson 2007; Higgins and Rodriguez 2006). Recent practitioner evidence also describes pipeline gaps as an important driver of deal readiness in life sciences (Kadlec and Gray 2026). Therefore, weaker pipelines are expected to lead to higher deal activity.

3. Portfolio specialization can increase the need for complementary assets

Many pharmaceutical companies are becoming increasingly specialized in the therapeutic areas they serve. This is supported by recent deals, which show a trend toward oncology, CVRM, and other priority therapeutic areas. AstraZeneca, for example, has invested heavily in antibody-drug conjugates (ADCs), which have shown potential in their focus area of oncology (Miller and Rahma, 2025). Thus, a firm's degree of therapeutic-area specialization may influence its external dealmaking activity. More specialized firms may rely on deals to deepen their presence in core therapeutic areas where they already have scientific, regulatory, and commercial expertise, as supported by prior research (Okada and Sengoku 2019; Nakashima, Kodama, and Sengoku 2023). Therefore, higher specialization is expected to be associated with greater external dealmaking activity.

4. Weak shareholder performance may incentivize strategic correction through M&A or licensing, while strong shareholder performance builds expectations for continued growth

Shareholder returns reflect market sentiment around a company's performance and outlook. The expected relationship with deal activity is ambiguous because two mechanisms are plausible. First, weak shareholder returns may increase pressure on management to demonstrate strategic renewal, address portfolio concerns, or restore investor confidence. Second, strong shareholder returns may raise expectations for continued growth and create pressure to deploy capital into value-accretive opportunities. Prior research on valuation, market sentiment, and acquisition behavior supports both mechanisms (Shleifer and Vishny 2003; Rhodes-Kropf and Viswanathan 2004; Harford 2005).

Conditions expected to shape transaction ability

1. Several key financial metrics reflect a company's internal ability to execute a transaction

Strategic need alone may be insufficient if firms lack the financial capacity to act. Three metrics capture this capacity: liquidity, leverage, and operating cash flow. First, liquidity (or cash) is expected to lead to greater deal activity due to the opportunity cost of leaving positive net-present-value (NPV) opportunities unfunded (Harford 1999; Harford 2005). Second, very high levels of leverage may reduce financial flexibility and limit the ability to finance external growth (Harford 2005). Financial flexibility is especially important in pharma, where R&D investment needs and competitive pressure are high (Thakor and Lo 2022). Third, operating cash-flow captures internally generated funds and represents profitability. Firms with stronger profitability are better positioned to pursue external growth through more favorable financing conditions and lower default risk when using external financing (Maksimovic and Phillips 2008).

2. Market valuation relative to the company's asset base reflects over- or undervaluation and can create favorable transaction conditions

In this context, market valuation, represented by the metric "Tobin's Q", is defined as a company being overvalued or undervalued by the market relative to its assets. Higher relative valuation may make transactions easier to finance by strengthening equity as acquisition currency and improving access to external capital (Shleifer and Vishny 2003; Rhodes-Kropf and Viswanathan 2004; Harford 2005). This is especially relevant in deals where shareholders of the target company receive shares of the buyer, as was the case in AstraZeneca's acquisition of Alexion in 2020. Here, Alexion shareholders received \$60 in cash and 2.1243 AstraZeneca American Depositary Shares (ADSs). On the other hand, low Tobin's Q may alternatively signal financial weakness, pipeline concerns, or restructuring pressure (Danzon, Epstein, and Nicholson 2007). Therefore, companies with stronger market valuation are expected to display greater deal activity.

Methodology

The analysis is designed as a deal-readiness diagnostic. It measures whether changes in a company's own conditions are associated with changes in its deal activity. It does not compare companies against one another to determine levels of cash, leverage, or pipeline strength that commonly affect deal activity across all companies. For senior decision-makers, the more relevant question is how changes in their own company's conditions affect deal readiness. For example, this model would test how a 10 percent-age-point increase in liquidity of a specific company compared to the previous year would affect its deal activity. Identifying how changing conditions within one company affect deal activity is more decision-relevant, as it can illustrate how companies previously handled year-on-year changes in conditions to derive insights into future deals.

To do so, the model accounts for stable differences between companies, such as long-term strategy, risk appetite, therapeutic orientation, and acquisition culture. It also considers year-specific market conditions, including macroeconomic pressure, capital-market fluctuations, and sector-wide deal cycles. This helps isolate whether underlying changes in buyer conditions are linked to changes in deal activity measured in deal count¹.

The sample covers 47 publicly listed large-cap pharmaceutical companies focused on innovative branded therapeutics from 2020 to 2025. Companies were included if they had a market capitalization above USD 10 billion as of March 2026 and more than USD 1 billion in 2025 revenue to avoid outliers. Generics, medtech, consumer health, contract development and manufacturing organizations, and mixed-model health companies were excluded because their business models and external innovation needs differ from those of large-cap innovative pharma. Before missing-data and estimation filters, the panel contains 282 firm-year observations.

The deal sample includes 810 announced buy-side transactions. These consist of 258 M&A deals and 552 licensing agreements². Acquisitions, partial acquisitions, and licensing agreements are included because they represent direct routes to external assets, technologies, or capabilities. Broader partnerships and co-development alliances are excluded because they differ more substantially in control, ownership transfer, and capital commitment.

-
1. Annual deal activity is modelled as a count outcome using a company- and year-fixed-effects Poisson-pseudo-maximum-likelihood (PPML) model.
 2. The licensing category includes a growing number of Greater China / rest-of-world rights deals, especially since 2024. Some carry large headline values, broad territorial scope, and substantial strategic commitment, making them closer to acquisition-like external innovation than traditional narrow licensing. The M&A/licensing split should therefore be read as a practical deal-form classification, not a perfect measure of economic commitment or control.

All explanatory variables are lagged by one year, so company conditions before the transaction year are used to explain deal activity in the following year. This aligns the analysis with pre-deal readiness and reduces the risk that the transaction itself drives the measured company condition.



Learning 1: Strategic need alone does not make buyers deal-ready

Public deal rationales usually explain why a transaction makes strategic sense. They rarely explain why a specific buyer is financially positioned to execute it. That creates a one-sided view of pharma dealmaking.

While need identifies the reason to transact, ability determines whether a deal is feasible and which deal mode is appropriate.

Figure 1 shows why both dimensions need to be assessed separately. As described before, the need-based variables are jointly relevant to annual deal activity, with a joint relevance test of $F = 4.628$, $p = 0.004$. The ability-based variables are also jointly relevant, with $F = 5.603$, $p = 0.001$. Therefore, the evidence does not suggest that pharma dealmaking is explained by strategic pressure alone, nor by financial capacity alone, but by the combination of both.

What drives pharma transactions more: need or ability?*

Need-based
variables

LoE pressure (1-year window)
Pipeline strength
Portfolio specialization
Shareholder return

Joint relevance test:

$F = 4.628$

($p = 0.004$)

Significant

Ability-based
variables

Liquidity
Leverage
Profitability
Market valuation

Joint relevance test:

$F = 5.603$

($p = 0.001$)

Significant

* Conditional joint relevance tests. Need and ability are tested as blocks while controlling for firm size, company effects and year effects. A significant block does not mean every variable in the block is individually significant.

Figure 1

Figure 2 illustrates why the ability side is often less visible. Among the 35 transactions above USD 5 billion in the sample, public rationales overwhelmingly emphasized strategic need rather than transaction ability. Franchise expansion, platform acquisition, and therapeutic-area expansion together accounted for 80% of principal deal rationales. By contrast, only one of 35 press releases, CSL's acquisition of Vifor in 2021, explicitly named buy-side transaction ability as a driving factor in the acquisition.

The absence of buy-side financial attributes in press releases is understandable. Companies rarely announce acquisitions by saying they have the balance-sheet capacity to complete them. They announce the asset, the franchise, the platform, or the growth opportunity. Yet this hidden side of the transaction is critical. A compelling rationale may explain why an asset is attractive, but it does not show whether the buyer can credibly absorb the price, risk, and execution burden.

Figure 3 provides an external view of the same 35 large transactions. Analyst and media coverage focused less on stated strategic fit and more on buyer-side feasibility, including clinical or scientific risk (60%), high-premium or overpayment concerns (46%), asset scarcity or competition (43%), valuation concerns (40%), and integration or execution risk (23%). This contrast shows why deal readiness cannot be assessed from public rationales alone.

Thus, two questions emerge. Is there a strategic reason to seek external innovation? Does the company have the capacity to act on that reason? The distinction becomes especially important when comparing M&A- and licensing-specific activity, where the buy-side conditions differ significantly.

Why companies make deals

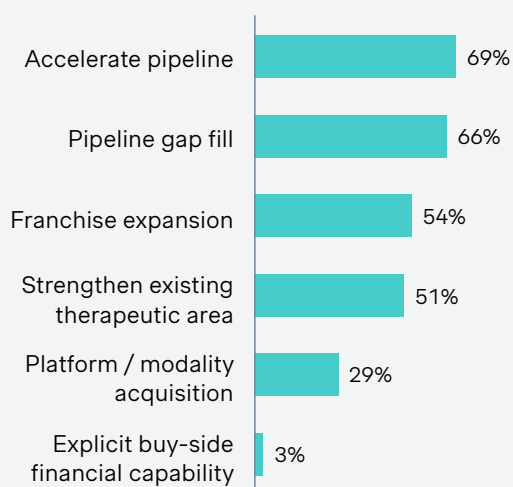


Figure 2

What shapes external deal narratives

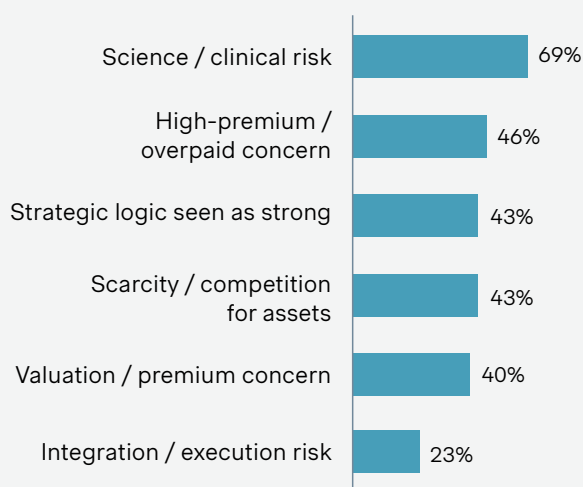


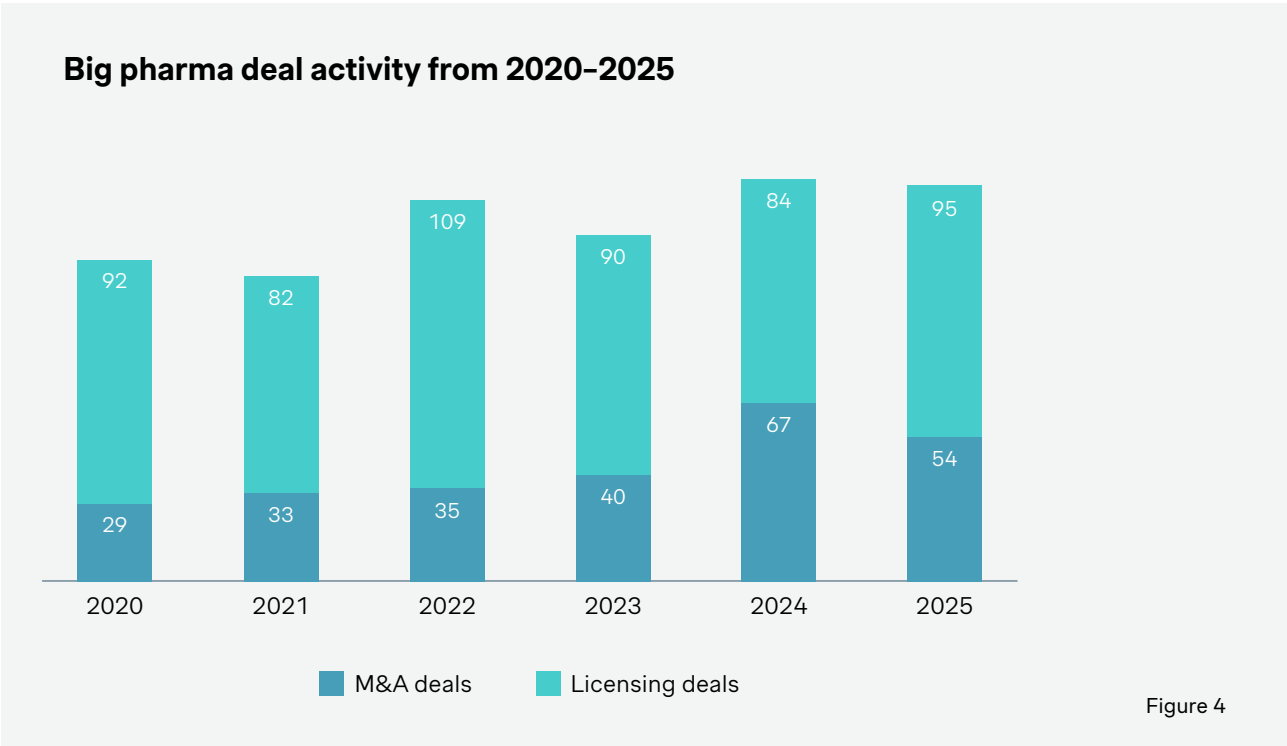
Figure 3

Learning 2: M&A and licensing are two solutions to the same problem

Once the strategic need and asset fit are clear, the next question is how much ownership, risk, and capital commitment the buyer should take on.

M&A and licensing are different answers to the same external-innovation problem. M&A offers ownership and control but requires a larger upfront commitment. Licensing provides access with more staged economics and shared development risk.

As shown in Figure 4, licensing has remained a central part of biopharma dealmaking between 2020 and 2025. Across the full sample, licensing dominates deal volume, but the largest deals favor M&A. Across the 810 announced buy-side transactions in the sample, licensing accounted for 552 deals and M&A for 258. Among the 35 transactions above USD 5 billion, the pattern reversed. M&A accounted for a total of 26 (or 74%) of those deals. Deal mode is central to buyer readiness because it determines how much ownership, risk, and capital commitment the buyer can credibly take on.



The distinction between M&A and licensing is critical because the two modes are associated with fundamentally different buyer conditions. Figure 5 applies the same joint relevance test used in Figure 1 but separates M&A and licensing activity. M&A appears constrained by ability-based variables, while licensing is more closely associated with need-based conditions.

For M&A, the grouped ability-based attributes were strongly associated with deal activity, while the grouped need-based attributes were not. For licensing, the pattern was reversed: need-side variables remained relevant, while the ability-based variables were not significant. This suggests that acquisitions are more constrained by transaction capacity, whereas licensing can translate strategic need into action under lower capital intensity.

The review of large deals above USD 5 billion also revealed a similar pattern. M&A deals were concentrated within commercial or late-stage assets, where buyers committed substantial capital to more de-risked opportunities. Licensing deals were more often linked to platform-heavy or earlier-stage assets, where staged economics helped manage uncertainty and capital exposure.

Decision-makers should therefore treat transaction form as a strategic choice in its own right. In many cases, deciding whether the asset is needed is only part of the issue. They must also determine what level of commitment and risk is appropriate for their specific situation.

What drives deal activity when it comes to decisions between M&A and licensing deals

		M&A	Licensing
Need-based variables	LoE pressure (1-year window)	Joint relevance test: F = 1.516 (p = 0.218) Not significant	Joint relevance test: F = 3.976 (p = 0.008) Significant
	Pipeline strength		
	Portfolio specialization		
	Shareholder return		
Ability-based variables	Liquidity	Joint relevance test: F = 7.361 (p = 0.001) SIGNIFICANT	Joint relevance test: F = 1.945 (p = 0.122) Not significant
	Leverage		
	Profitability		
	Market valuation		

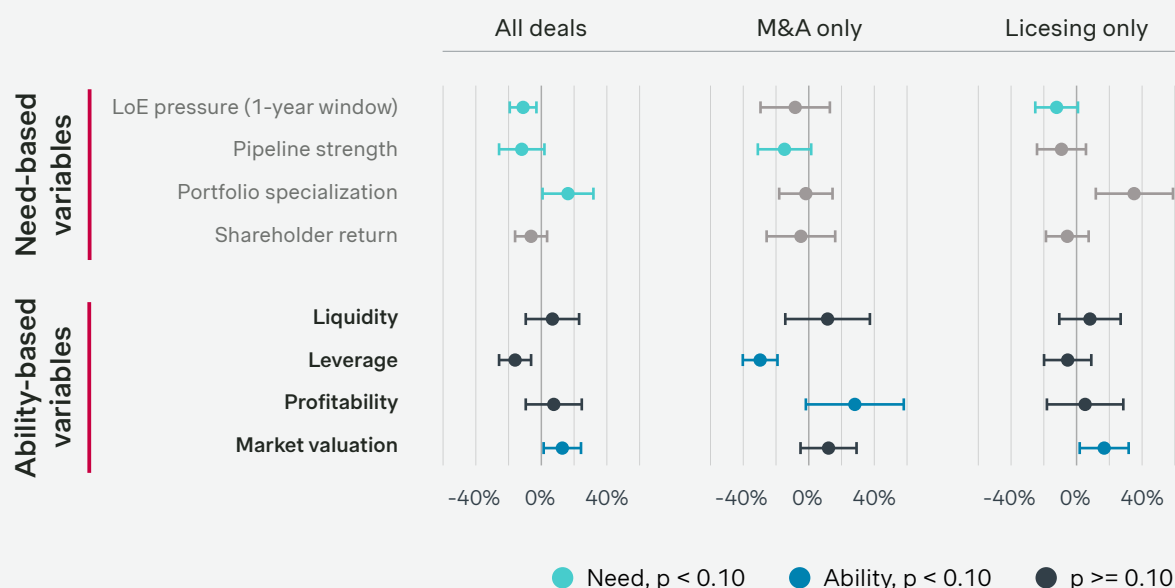
Figure 5

Learning 3: Transaction ability goes beyond liquidity

Figure 6A depicts the analysis moving one layer deeper than the joint relevance tests by showing the association between individual buyer-side conditions and expected annual deal activity. The findings suggest that transaction ability is shaped less by cash alone and more by leverage, valuation, profitability, and financing flexibility. Most importantly, the extent of the financial capacity matters significantly more for M&A than for licensing deals.

Leverage is the clearest constraint. A one standard deviation increase in debt/assets was associated with roughly 16.7% fewer expected deals. The effect was even stronger when assessing only M&A deals, where the same increase was associated with 30.9% lower acquisition activity. This supports the idea that large acquisitions are especially sensitive to balance-sheet headroom. Debt/assets is used here rather than debt/equity because equity book values can be very small, volatile, or even negative, which can distort leverage comparisons.

How a one-standard-deviation change affects deal activity*



* Positive point estimates imply greater deal activity when the regressor increases, and vice versa. E.g., higher pipeline strength is associated with lower deal activity shown by a negative estimate.

Figure 6A

Market valuation, proxied by Tobin's Q, moves in the opposite direction. Companies with stronger valuations appear more able to pursue external innovation, either because they have more financing flexibility, greater investor support, or a stronger equity currency. Valuation was particularly visible when assessing licensing deals. For the same company, a one standard-deviation increase in Tobin's Q (market value divided by book value of assets) is associated with 15.3% higher expected licensing activity. This suggests that stronger valuation may support licensing to sustain growth momentum without taking on the full cost and risk of acquisition.

Lower leverage may enable M&A activity, while increases in valuation are associated with higher licensing activity to sustain growth momentum.

Liquidity in the form of cash provided inconclusive results. A high cash balance may support a deal, but it does not necessarily mean the company is willing or able to deploy capital. Cash is decision-relevant only when assessed alongside leverage, recurring cash generation, valuation, and expected post-deal commitments. However, operating cash flow is significantly associated with more M&A activity. Specifically, a typical within-company increase³ is associated with 23.1% higher expected acquisition activity.

For decision-makers, the ability assessment should therefore go beyond liquidity. Highly levered buyers may still need external innovation, but licensing or smaller transactions may be more realistic than large M&A. Companies with stronger valuation, profitability, and balance-sheet flexibility have a wider range of options, including larger acquisitions when asset maturity, strategic urgency, and risk appetite align.

3. One standard deviation (company specific).

Learning 4: LoE matters but is not a simple short-term deal trigger

The industry consensus is that LoE is one of the clearest sources of strategic deal pressure in pharma. However, when LoE exposure was measured over the one-year post-announcement window, deal activity declined slightly, contrary to expectation. Figure 6B shows that an increase in LoE exposure by one standard deviation is associated with 11.8% fewer deals. This should not be read as evidence that LoE is unimportant. A possible interpretation is that by the time revenue loss is only one year away, the window to address it through external transactions has already passed. Especially pipeline-oriented deals often need several years before they can contribute meaningful revenue. It may also indicate reduced transaction capacity or confidence as a major cliff becomes imminent.

How a one-standard-deviation change in LoE affects deal activity

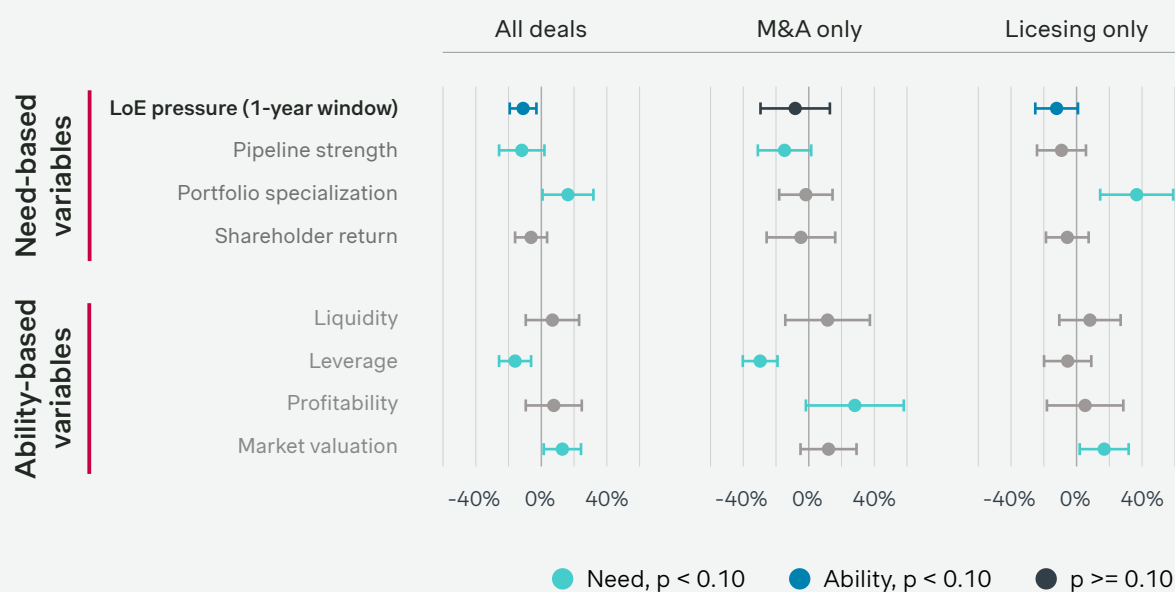


Figure 6B

When the LoE window is extended to three years, the coefficient remains negative but is no longer statistically significant, suggesting that the negative association is concentrated in near-term exposure rather than broader long-term LoE pressure. When analyzing large deals (>USD 5 billion), LoE remains an often-quoted reason for deals.

News reports covering 54% of the deals (19/35) name lifecycle or replenishment needs, pipeline acceleration, or LoE-related pressure as deal rationales. Recent industry evidence supports this, with analysts stating that companies evaluate LoE consequences five to seven years into the future (Santhosh and Roy 2026). LoE remains central to deal pressure, but the relevant response window often begins well before the revenue cliff becomes imminent.

LoE is strategically important but must be assessed holistically. The appropriate response may differ by asset maturity, therapeutic area, pipeline quality, and the size of the revenue at risk.

Decision-makers should therefore monitor LoE early and interpret it case by case. LoE remains a central pillar of strategic deal pressure, but it needs to be assessed alongside pipeline quality, asset maturity, likely time to commercialization, and financial capacity. There is no one-size-fits-all transaction strategy all companies pursue when faced with imminent LoE pressure.

Learning 5: Pipeline effects point to M&A, specialization to licensing

Figure 6C shows that not all forms of strategic need translate into the same deal route. Pipeline strength and portfolio specialization are both associated with deal activity, but they point to different transaction patterns.

Pipeline strength is measured as a phase-weighted clinical-trial flow indicator. Trial starts and completions increase the score, while cancellations reduce it. A one-standard-deviation within-company increase in pipeline strength is associated with 17.0% lower expected M&A activity. Put differently, when a company sees a deterioration in their pipeline, M&A activity tends to increase.

This pattern is consistent with M&A being used as a more forceful response to internal pipeline pressure. When internal development momentum weakens, acquisitions can provide access to a broader asset set, a more advanced clinical program, or an entire platform that can demonstrate portfolio renewal to investors. This does not mean that M&A is mainly used for early-stage assets.

Does every strategic need lead to the same deal?

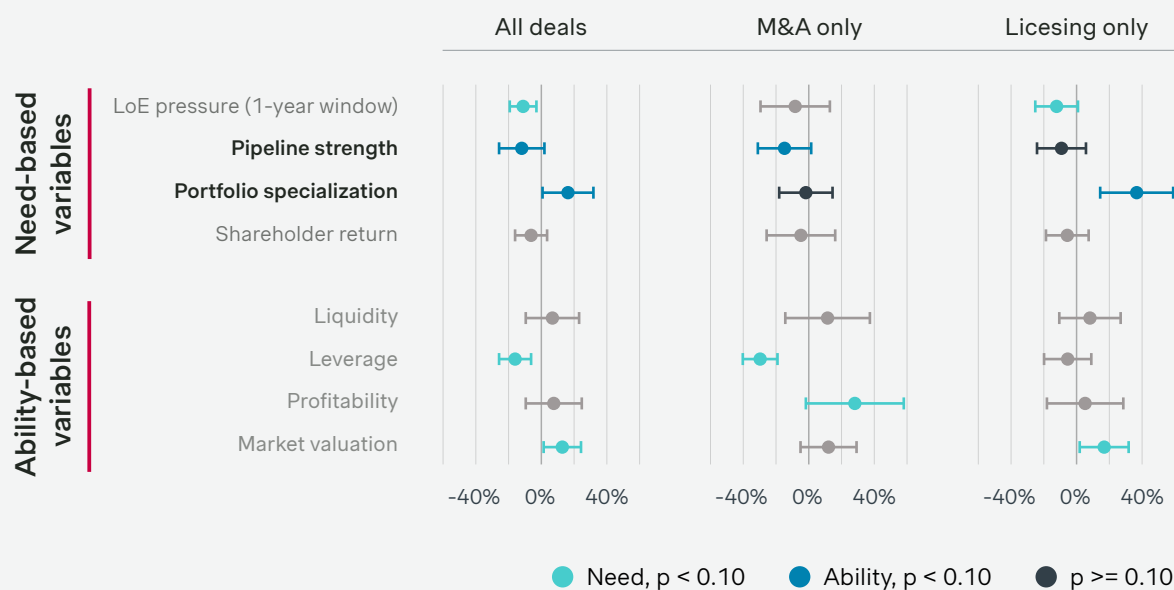


Figure 6C

**Different portfolio needs point to different deal modes:
Pipeline weakness is more visible in M&A, while therapeutic
specialization is more visible in licensing.**

The degree of portfolio specialization, measured as the concentration of the marketed assets across therapeutic areas, can be read as an indicator of a company's portfolio strategy. A higher value means that the company's marketed portfolio has become more concentrated in fewer therapeutic areas⁴. The results show that a one-standard-deviation within-company increase in specialization is associated with 34.5% higher expected licensing activity. While the same associative direction can be seen for M&A deals, the results are statistically insignificant.

There are two plausible interpretations. First, increasing therapeutic-area concentration may reveal overreliance on a narrow set of franchises, creating a need to diversify. Licensing provides a lower-risk route to explore therapeutic areas that may have previously been unfamiliar to the company, while limiting upfront capital and development risk. Second, increased specialization may reflect a deliberate strategic shift toward a more focused portfolio. In that case, licensing can help deepen the chosen therapeutic position through targeted assets, mechanisms, or platforms that strengthen an existing franchise.

The practical implication is that portfolio need should not be treated as a single category. A weakened internal pipeline may require a broader replenishment move, including M&A, where development ownership may be important. Licensing can support companies that aim to quickly shift toward a more diversified portfolio or to double-down on a targeted area.

4. Portfolio specialization is measured as therapeutic-area concentration in the marketed portfolio. It does not capture specialization by technology, modality, mechanism of action, or scientific capability, such as RNA, ADCs, bispecific antibodies, cell therapy, or biologics. These capability gaps may create different sourcing needs and different M&A or licensing patterns.

Illustrating deal readiness through Transaction Need Ability Matrix

The Transaction Need/Ability Matrix (Figure 7) translates the findings into a practical deal-readiness framework. It helps assess how changes in portfolio pressure and transaction ability shape the likelihood, scale, and likely form of external innovation activity.

The matrix should be read dynamically. It does not label companies as permanent buyer types. Instead, it shows how changes in strategic need and transaction ability can shift a company's deal readiness over time. Since the analysis compares companies against their own prior baseline, a company can move toward one of the quadrants as need or ability changes relative to previous years.

The horizontal axis captures the strategic need to transact: Pressure from LoE exposure, pipeline gaps, therapeutic-area specialization, and broader strategic renewal needs.

The vertical axis captures the ability to transact: Leverage headroom and market valuation explain the transaction structures a company can credibly finance and execute.

The Transaction Need/Ability Matrix

Ability to transact	High	Opportunistic buyer A stronger pipeline reduces urgency, while financial capacity allows selectivity. These firms may pursue M&A for exceptional fit license higher-risk assets as long-term options. May support large deals above USD 5 billion where strategic fit is exceptional.	Active buyer Pipeline gaps and financial headroom make these firms strong deal candidates. Especially relevant for highly valued companies facing internal capability or pipeline gaps. They can pursue M&A for clinical-stage assets or licensing for therapeutic gaps.
	Low	Low-probability buyer A sufficient pipeline and limited headroom reduce external deal likelihood. Large M&A is unlikely. Licensing is plausible if upfront exposure is low and strategic fit is clear.	Constrained buyer Pipeline or portfolio gaps create external sourcing need, but limited headroom constrains major M&A. Selective licensing or smaller bolt-ons may support shifts toward priority therapeutic areas.
		Low	High
		Need to transact	

Figure 7

Active buyers move toward the high-need, high-ability quadrant. These companies face elevated strategic pressure and have sufficient transaction capacity to act. They are the strongest candidates for external growth because portfolio pressure is matched by financial headroom, cash-flow confidence, valuation support, or established execution capacity. M&A becomes plausible when target fit, asset maturity, and timing justify a larger upfront commitment. Licensing may still be attractive where the goal is to fill a therapeutic-area gap while managing asset-level risk.

Constrained buyers move toward the high-need, low-ability quadrant. These companies have a clear reason to seek external innovation, but limited financial headroom limits the feasible transaction range. Pipeline gaps, LoE exposure, or focused portfolio needs may create urgency, while leverage, weak cash generation, or valuation pressure limit major acquisitions. Licensing, staged economics, smaller bolt-on deals, and partnerships are often more realistic than large-scale M&A.

Opportunistic buyers move toward the low-need, high-ability quadrant. These companies have transaction capacity but lower immediate pressure to act. A strong pipeline or limited near-term revenue exposure reduces urgency, while cash, low leverage, or valuation support gives them room to act selectively. They may pursue M&A or licensing when an unusually attractive asset strengthens an existing franchise, creates a long-term option, or opens a strategically valuable adjacency.

Low-probability buyers move toward the low-need, low-ability quadrant. These companies have lower strategic pressure and lower ability to transact. Large M&A is unlikely because neither urgency nor financial flexibility strongly supports a major commitment. Small licensing remains possible when upfront exposure is limited and strategic fit is clear, but the baseline expectation is limited external transaction activity.

The following examples apply the matrix to selected buyer-years from the transaction sample. They should be read as illustrative positions in specific years, not as proof of permanent company types.

Active buyer:

Pfizer, 2023: acquisition of Seagen, USD 43 billion

Pfizer combined replenishment pressure with sufficient transaction capacity. Pipeline strength was below the final-sample median, while leverage was manageable and operating cash-flow/assets was strong. The Seagen acquisition is consistent with a company able to convert its strategic need into large-scale M&A.

Constrained buyer: Takeda, 2021: licensing agreement with PeptiDream, USD 3.5 billion	Takeda showed clear external-sourcing pressure, with weak pipeline strength and high one-year LoE pressure. At the same time, low cash/assets, high debt/assets, weak cash-flow profitability, and low valuation constrained major M&A. The PeptiDream agreement illustrates licensing as a staged response when need exceeds ability.
Opportunistic buyer: Vertex, 2024: acquisition of Alpine Immune Sciences, USD 4.9 billion	Vertex had limited immediate replenishment pressure, with very strong pipeline strength and no one-year LoE exposure. Ability was high, supported by high cash/assets, very low leverage, strong operating cash-flow/assets, and elevated valuation. The Alpine acquisition is consistent with a capable company acting selectively when an attractive asset emerged.
Low-probability buyer: Amgen, 2024: licensing agreement with Xeris Biopharma, USD 75 million	Amgen's need indicators were comparatively muted, with pipeline strength close to the sample median and no one-year LoE exposure. Ability was constrained by high debt/assets, while cash, cash-flow profitability, and valuation did not offset the leverage signal. The Xeris agreement shows that small licensing can remain plausible even when large M&A is unlikely.

The matrix is therefore best used as a deal-readiness tool. It helps clarify whether a company's changing conditions point toward large-scale M&A, staged licensing, selective opportunistic action, or limited external transaction activity. It should be applied alongside asset attractiveness, competitive intensity, regulatory exposure, and macroeconomic conditions.

The matrix helps decision-makers translate changing portfolio pressure and financial capacity into a clear deal-readiness view. It shows when M&A is realistic, when licensing is more appropriate, and when external deal activity is unlikely.

Conclusion

Pharma companies will continue to rely on external innovation to renew portfolios, address pipeline gaps, and respond to future revenue pressure. However, the analysis shows that strategic need alone does not explain deal activity. Companies are most likely to act when that need is matched by sufficient transaction ability.

This distinction matters because M&A and licensing are different responses to similar strategic pressures. Large acquisitions require financial headroom, confidence, and execution capacity, while licensing can offer a more flexible route when need is high but balance-sheet capacity is constrained.

The Transaction Need/Ability Matrix brings these insights together. By assessing how a company's need and ability change over time, decision-makers can better judge deal readiness identify the most realistic transaction form, and distinguish between active, constrained, opportunistic, and low-probability deal situations.

Senior teams should regularly reassess deal readiness by analyzing individual conditions, separating portfolio pressure from transaction capacity, and using this distinction to decide whether M&A, licensing, or no immediate action is the most appropriate. Doing so gives leadership teams a clearer answer to the central question: is the company ready to deal?

Authors

**Christian Schuler**

Senior Partner

Munich Office

Mobile: +49 176 19843429

christian.schuler@simon-kucher.com

**Dominic Seitz**

Partner

Frankfurt Office

Mobile: +49 176 19843431

dominic.seitz@simon-kucher.com

**Martin Slusarczyk**

Senior Director

Zurich Office

Tel.: +41 44 226 5040

Mobile: +41 763 238941

Martin.Slusarczyk@simon-kucher.com

**Jakob Otto**

Senior Consultant

Munich Office

Mobile: +49 151 67784514

jakob.otto@simon-kucher.com

Munich office

Luise-Ullrich-Str. 14
80636 Munich, Germany
Tel. +49 89 544793 0
munich@simon-kucher.com

Frankfurt office

Marienturm
Taunusanlage 9-10
60329 Frankfurt/Main, Germany
Tel. +49 69 905010 0
frankfurt@simon-kucher.com

Zurich office

Glärnischstrasse 8
8002 Zurich, Switzerland
Tel. +41 44 22650 40
zurich@simon-kucher.com

Follow us on



Discover more on

simon-kucher.com

© 2026 Simon-Kucher & Partners Strategy & Marketing
Consultants GmbH. All rights reserved.
Photo credits: Gettyimages, istock, Shutterstock

SIMON 
KUCHER
Unlocking better growth