

12 Jan 2022 | Opinion

Deals Or No Deals, J.P. Morgan Sets The Tone For 2022

Collaborations, Not M&A, Dominate

by Mandy Jackson

No big buyouts were revealed during the annual J.P. Morgan Healthcare Conference for a third year in a row. Big pharma firms are in acquisition mode, but execs stress desire for easy integrations and scientific alliances.

Biopharmaceutical industry players – and reporters – eagerly await merger and acquisition announcements going into the annual J.P. Morgan Healthcare Conference, hoping to scrutinize which big pharma is buying which other company for signs of what the deal-making environment will be like in the coming year. And in 2022, for the third year in a row, the meeting started with no big M&A deals.

Instead, [Pfizer Inc.](#), [Novartis AG](#), [Amgen, Inc.](#), [Bristol Myers Squibb Company](#) and others announced collaboration agreements. (Also see "[Deal Watch: Bristol, Pfizer Lead Off J.P. Morgan Week With Two Deals Apiece](#)" - Scrip, 11 Jan, 2022.)

They and their peers insisted during J.P. Morgan presentations and Q&A sessions as well as in interviews with *Scrip* that they do intend to invest in business development in 2022, but with a primary focus on smaller bolt-on acquisitions as well as licensing deals and collaboration agreements. Bolt-on deals have been the focus for the past few years. (Also see "[The Pandemic Hurt, But EY Expects More Biopharma Deal-Making In 2021](#)" - Scrip, 11 Jan, 2021.)

While investors and others are clamoring for potential buyers to execute large transactions, Amgen CEO Robert Bradway made the astute – and as he pointed out, obvious – observation that there simply

Amgen CEO Bradway On Deals: Good (Smaller) Opportunities Are Vast

are more small, early-stage ventures to partner with than there are large, later-stage companies to acquire. Bradway also noted that while Amgen would like to buy another growing commercial-stage product like Otezla (apremilast), not only are few available but there are few assets at a price that still leaves value on the table for both companies' investors.

Pfizer found a way around that challenge with the \$6.7bn acquisition of [Arena](#)

[Pharmaceuticals, Inc.](#), which the

companies announced in December, ahead of Arena's Phase III results for S1P receptor modulator etrasimod in ulcerative colitis and a Phase II/III readout in Crohn's disease. CEO Albert Bourla said Pfizer's therapeutic area experts reviewed available data from earlier studies of the drug and found a potential best-in-class profile that made the company comfortable with paying a greater than 100% premium for Arena with the risk that the Phase III data may not be positive. (Also see "[Pfizer Buys Arena For \\$6.7bn In Bid To Diversify In Inflammation & Immunology](#)" - Scrip, 13 Dec, 2021.)

"Now there is risk ... but also there is benefit," Bourla told the J.P. Morgan audience. "The benefit is that we got it without having to go into an auction after the data were released." Pfizer is more comfortable doing 10 similarly risky transactions at around the \$5bn mark and spreading out that kind of risk, based on the input of its scientists, than betting \$50bn on a single transaction, he explained.

Bigger M&A Is Not Necessarily Better M&A

Pfizer is not particular about M&A deal size, but the company is not necessarily eager to take on a large company only to have to lay off a lot of the employees and shut down many of the acquired entity's facilities in an effort to cut costs to justify the transaction's size.

Looking ahead to patent expiries in the second half of the decade, Bourla said, "if it is a sizable opportunity that enhances our growth in the 2026 to 2030 [period], of course. If it is a sizable opportunity because it brings us new science, yes, of course."

"It's not that I don't think that you can have synergies in general in business by putting together the two and making it more effective," he added. "But now is not the time for Pfizer. Right now manufacturing is working very well. Our research is very productive. Our commercial operations are flying. This is not the time to disrupt all of that by cutting costs."

By [Mandy Jackson](#)

11 Jan 2022

Amgen is enthusiastic about deals of all sizes, including a new Arrakis collaboration, and is interested in large transactions like its Otezla buy – but Bradway said right-priced opportunities are fewer and farther between.

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[*Eli Lilly and Company*](#) CEO David Ricks had similar thoughts on deal-making in 2022, noting in an interview with *Scrip* that the company remains focused on bolt-on acquisitions as well as licensing and collaboration deals. Business development is a priority for the company, which has a long-stated goal of deriving about a third of its R&D pipeline from external innovation, but given Lilly's current "privileged position of growth," Ricks said the big pharma is not under immediate pressure to execute a big deal.

"Those larger deals are often driven by a desire to smooth your [earnings per share (EPS)] growth or fill a revenue drop due to patent expiry and we don't have any of those problems," he noted. "And on top of that, our historic study of those larger transactions is pretty negative in terms of value creation, probably for economic reasons, like you tend to overpay for those revenue streams, but also just cultural reasons."

Ricks noted that Lilly prizes its "purpose-driven culture where we can get things done because we have a tightly knit group that's been together a long time and so we don't want to jeopardize that. It's not worth it and we don't need to."

That said, the company is interested in early-stage deals where it can add value to a drug development program through its clinical trial, manufacturing and global commercial expertise.

"It's a natural fit to attract companies that are early-stage, have got some really good promising data and plug them into the larger Lilly framework," Ricks said, noting that two of the company's late-stage R&D programs – the interleukin-13 inhibitor lebrikizumab for atopic dermatitis and the BTK inhibitor pirtobrutinib for lymphoma – came from acquisitions announced at previous J.P. Morgan conferences. (Also see "[*Lilly Is Growing Its Next Crop Of Blockbusters*](#)" - *Scrip*, 16 Dec, 2021.)

Lilly acquired lebrikizumab through its \$1.1bn purchase of [*Dermira Inc.*](#) in 2020. (Also see "[*Lilly's Paying \\$1.1bn For Itch Advantage With Dermira's Lebrikizumab*](#)" - *Scrip*, 10 Jan, 2020.) It brought in pirtobrutinib through the \$8bn [*Loxo Oncology at Lilly*](#) acquisition in 2019. (Also see "[*Lift-Off For Lilly In Cancer Genetics With Loxo Buy*](#)" - *Scrip*, 7 Jan, 2019.)

"They're a very small fraction of our market capitalization, but they can add to our portfolio and they fit, in those cases, both fit in therapy areas that we're deeply invested in, so [we will do] more of that," Ricks said.

Collaborations Add Drugs, R&D Capabilities

Collaborations can add drug candidates but big pharma also is using research partnerships to access new technologies that can enhance the companies' R&D platforms or drug modality capabilities, like the deal Amgen announced with [*Arrakis Therapeutics*](#) on 11 January to discover and develop small molecules that degrade RNAs responsible for disease-causing proteins.

Pfizer also leaned further into the messenger RNA therapeutics space and upped its game in genetic medicines, announcing collaboration agreements on 10 January to access delivery technology from [Acuitas Therapeutics](#) used in mRNA and to partner with [Beam Therapeutics Inc.](#) on base-editing therapeutics, in a deal worth \$300m up front to Beam. (Also see "[Beam Anticipates Pfizer Deal Will Lead To Additional Partnerships](#)" - Scrip, 12 Jan, 2022.)

Bristol added allogeneic cell therapy capabilities to its existing cell therapy portfolio through a deal with [Century Therapeutics, Inc.](#) that the companies announced on 10 January. BMS paid \$150m up front and could pay as much as \$3bn in milestone fees plus royalties for the development of up to four induced pluripotent stem cell (iPSC)-derived natural killer and T-cell therapies for the treatment of hematologic malignancies and solid tumors.

The collaboration is in line with Bristol's 2022 business development focus on smaller licensing and acquisition deals as the company continues to advance the products and pipeline programs that it acquired in the \$74bn acquisition of [Celgene Corporation](#), announced just before the J.P. Morgan meeting in 2019. (Also see "[J.P. Morgan 2019: Industry Throws A Bonanza, With An Elephant In The Room](#)" - Scrip, 9 Jan, 2019.)

[AbbVie Inc.](#) has also been focused on integrating products and advancing the pipeline it took in with the \$63bn purchase of [Allergan plc](#), which closed in mid-2020. (Also see "[Combined AbbVie/Allergan Makes Earnings Debut](#)" - Scrip, 29 Jul, 2020.)

Debt from the transaction still lingers on AbbVie's balance sheet as well, but chief financial officer Robert Michael said during the company's J.P. Morgan presentation that it has "capacity for business development with approximately \$2bn allocated annually to augment our pipeline with the most promising external technologies and innovative therapies."

AbbVie soon will have a very large revenue gap to fill when biosimilars for top-seller Humira (adalimumab) begin to launch in the US in 2023. However, the company expects two new autoimmune disease products, Skyrizi (risankizumab) and Rinvoq (upadacitinib), to generate up to \$15bn in combined 2025 sales, so AbbVie's business development needs are not as immediate

J.P. Morgan Day 1: Pharma Execs Offer Big Talk Instead Of Big Deals

By [Scrip Team](#)

10 Jan 2022

Daily notebook from the virtual J.P. Morgan Healthcare Conference: business development is top of mind for BMS, Merck, J&J and Pfizer, while Novartis, Moderna and Regeneron talk about next steps. Bayer looks to minimize Xarelto patent expiry, a new chief exec debuts for Alnylam and EY suggests 2022 will be another year of bolt-on deals.

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given the anticipated growth for its drugs in other therapeutic areas – including the Botox franchise gained from Allergan – and its new launch products. (Also see "[J.P. Morgan Day 2: What's Next For Pharma, From Alzheimer's To Omicron](#)" - Scrip, 11 Jan, 2022.)

While mega-mergers like AbbVie/Allergan have been transformative in the past, the pandemic has depressed large-scale deals during the past few years. Deal-making prognosticators foresee a continued trend toward smaller transactions and easily integrated bolt-on deals. (Also see "[EY: Don't Expect Mega-Mergers To Return, But 'Never Say Never'](#)" - Scrip, 10 Jan, 2022.)

But the sheer amount of cash-on-hand at many companies leaves incentive to read into the comments made at J.P. Morgan and consider the possibilities.