The Innovator's Dilemma:

Out-License or Sell? What the Data Suggests About Preclinical and Early-Stage Biotech Exits

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Overview

This month's article revisits the topic of out-licensing versus selling and reviews the latest independent data sources to help sharpen the decision when contemplating an asset divestiture versus an out-license. While it is a frequently posed question - *out-license or sell* - there is no universal right answer. Rationale and strategic determinations are manifold. The reality of biopharma business is such that headline deal values for both licensing and acquisitions are often quite misleading. The real story of significance is in what gets paid, when, and under what structure.

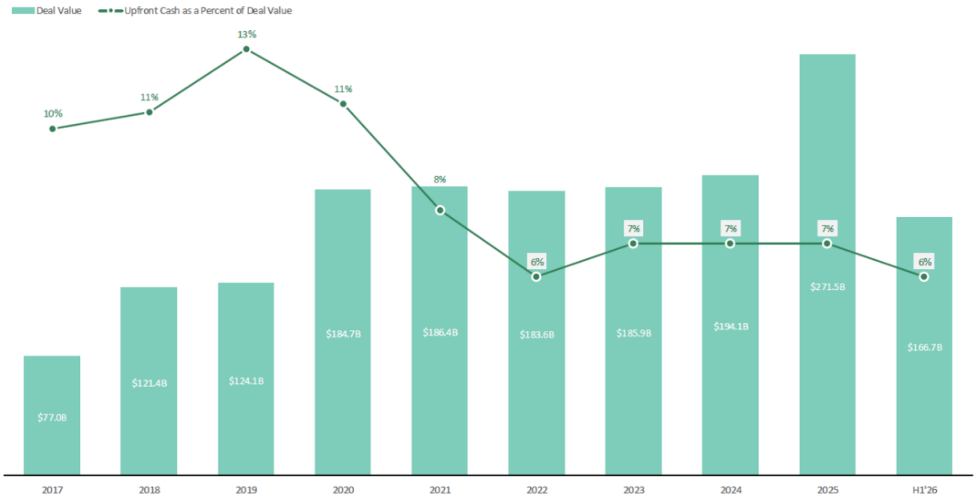
A new report this month from JP Morgan provides a timely summary of Venture Capital activity, M&A and Licensing highlights for H1, 2026.

- Across the industry, licensing value reached **$167B** in **H1 '26,** marking a robust first half of the year

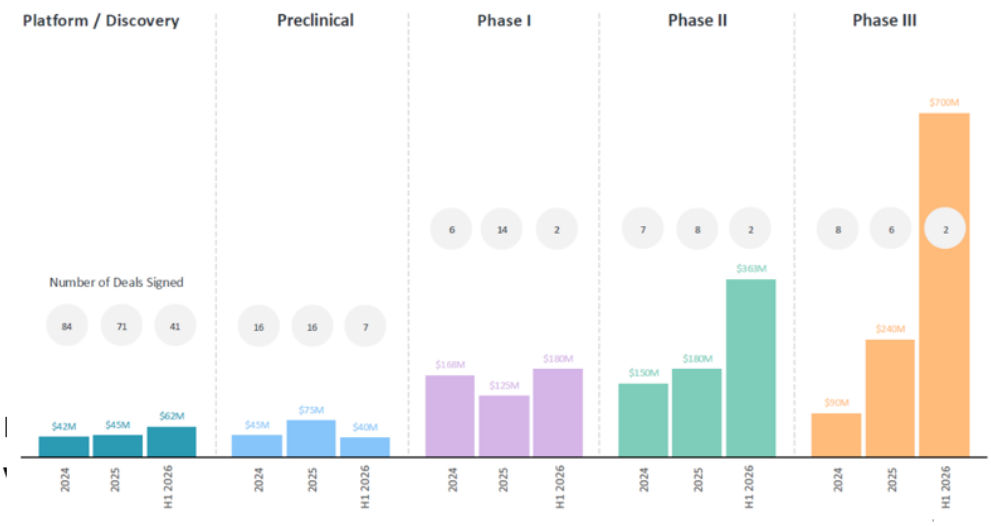
- Total upfront dollars declined slightly to represent **6%** of total licensing deal value versus **7%** in the prior three years (’23 – ’25)
- Deal structures were milestone-heavy with clinical development, regulatory and commercial milestones providing buyers with significant downside protection alongside exclusively reserved asset access

Biopharma Licensing Activity 2017 - H1, 2026

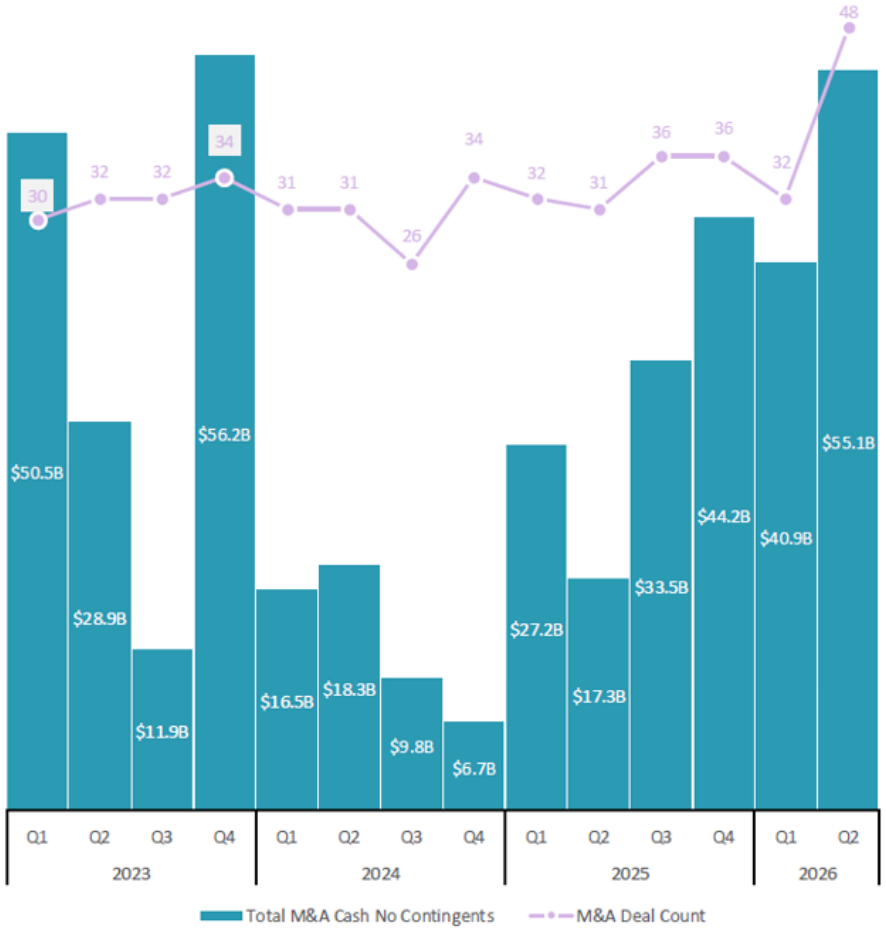
Aggregate Deal Value $167B in H1 2026; Upfront Value declined slightly to 6% of total bio-bucks



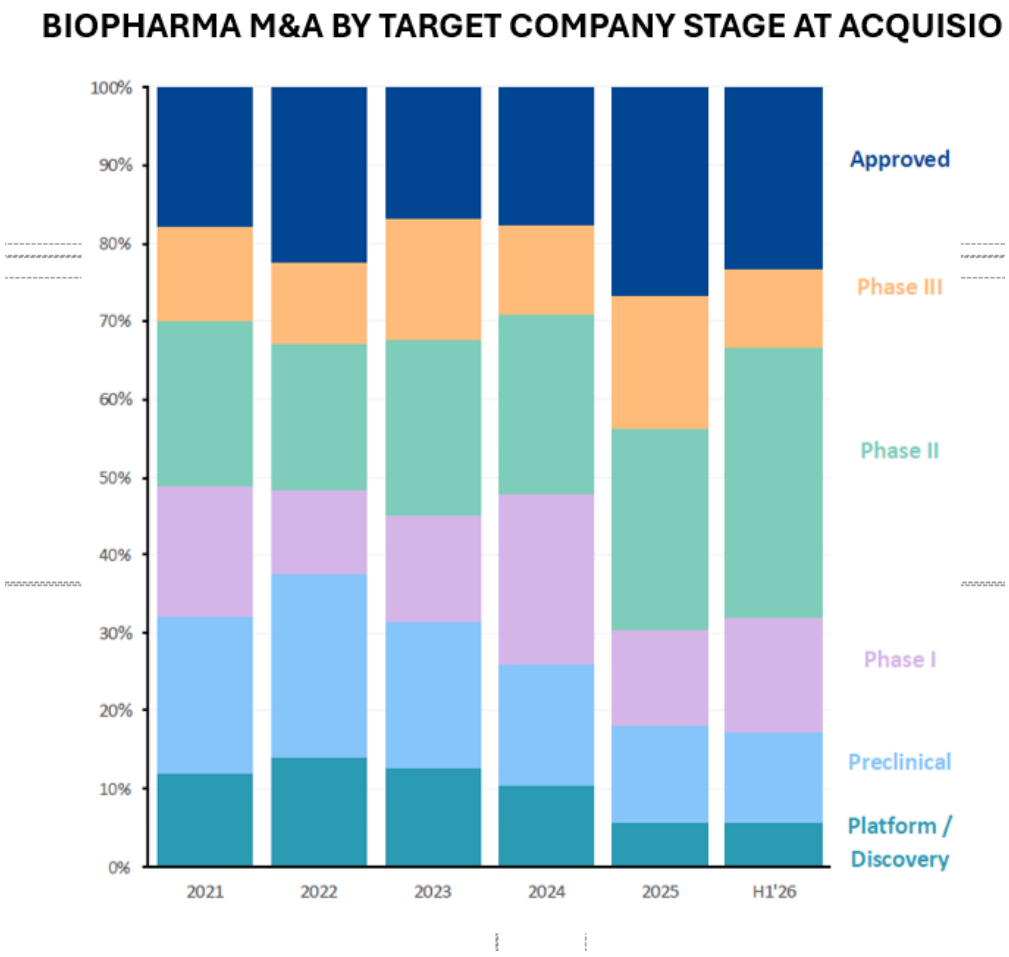
- Platform & discovery deals earned a median of **~$62M upfront**, a robust increase of **~ 37%** in upfront value versus prior year
- Preclinical assets disclosed a median upfront value of **$40M**, declining from 2025 but largely in-line with 2024 upfront median
- Assets in phase 1, 2 and 3 reported strong increases in median upfront values however total deal counts for each category are few (only 2 each) limiting any conclusions on durable trends



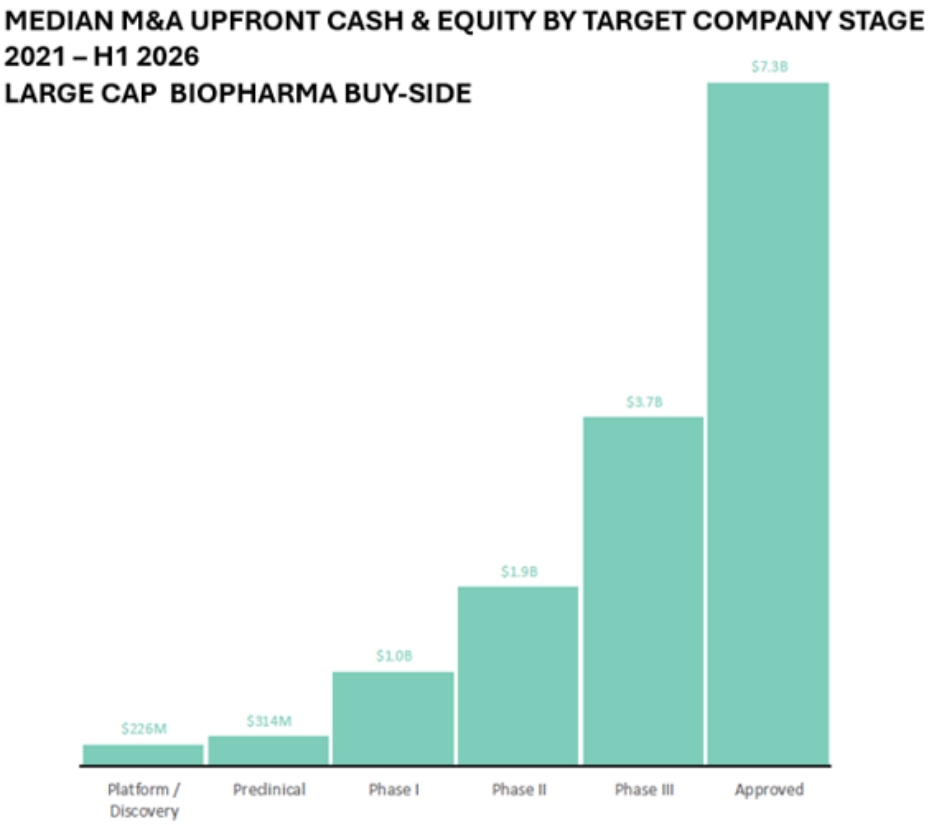
NUMBER OF BIOPHARMA M&A DEALS AND UPFRONT CASH AND EQUITY[1,2]



Median upfront cash and equity moderated to $765M in Q2 from $1.4B in Q1 but remained elevated relative to most of 2023 through 2025 (graph below).



Biopharma M&A skewed toward Phase II, Phase III and approved-stage companies in H1 2026, reflecting buyer preference for more de-risked assets.



JP Morgan's Q2 2026 Biopharma Licensing and Venture report provides timely macro trends and industry-wide analysis. However, for more granular comparative analysis regarding licensing and acquisitions, we will reference additional independent reports:

2025 SRS Acquiom Life Sciences M&A Study

IQVIA Pharma Deals Half Year Review of 2025 – Licensing and M&A

HSBC Future Healthcare Report, July 2026

An important caveat worth mentioning pertains to the limitations regarding licensing datasets: there are no identified longitudinal tracking licensing data sets, of comparable depth and breadth to that provided for M&A deals.

Because SRS Acquiom acts as shareholder representative on the documented private M&A deals on which they report, SRS Acquiom has established a valuable data-access advantage. SRS receives and views confidential post-closing payment data years after signing. This enables SRS Acquiom to accurately track *actual* milestone achievement payments rather than just announced deal terms.

There are no comparable reports of this magnitude for licensing transactions. Our ability to comprehensively address the question "did licensors actually get paid" is less consistent – data sets are limited. Please keep this asymmetry in mind. Overall, retrospective insight, based on earnouts and milestones actually paid is more extensive for M&A deals than for licensing deals.

Deal Volume & Aggregate Value (see Tables 1 & 2 below)

Licensing deal values grew faster than M&A values in H1 2025

Strategic buyers were willing to commit larger total $$ packages for fewer, higher-quality assets – a "quality over quantity" theme that has become familiar over the past ~ 18 – 24 months

A note on acquisition target size and public/private status:

The SRS Acquiom dataset covers exclusively private-target acquisitions; companies that were not yet publicly traded at the time of sale.

Private targets, on balance, are likely to skew smaller in valuation and risk-adjusted NPV than small-cap public biotechs, which may carry more mature clinical data, greater market visibility and correspondingly higher acquisition premiums

By contrast, IQVIA's M&A figures include both private and public targets (e.g., J&J's $14.6B acquisition of the NASDAQ-listed Intra-Cellular Therapies)

IQVIA doesn't break out a private-only subset of M&A for direct comparison

As a result, the SRS Acquiom upfront and earnout-potential figures in Table 1 may understate the deal economics an innovator with a more advanced, publicly traded asset might expect to see

The milestone achievement rates and patterns, however, are still instructive regardless of company size, since they reflect structural features of earnout mechanics rather than valuation levels

Table 1

Metric	Acquisitions (SRS Acquiom, BioPharma, 2008 -2025)	Acquisitions (IQVIA, H1 2025)	Licensing (IQVIA, H1 2025)
Deal count	233 M&A deals*	185 M&A deals	Volume down ~2% vs. H1 2024 (specific count not disclosed)
Aggregate deal value	$64.8B upfront + $16.6B earnout potential	$88.9B total	$92.9B aggregate value +37% YoY
Mean deal value	$202M upfront (most recent 2023-2025 cohort)	$1,083M mean total deal value	$780M mean total deal value +38% YoY
Median deal value	$101M upfront (most recent 2023-2025 cohort)	$150M median total deal value	$493M median total deal value +80% YoY
Deals ≥$1B in value	Not directly comparable at this cut	18 deals ≥$1B (vs. 23 in H1 2024)	31 deals ≥$1B (vs. 23 in H1 2024)
	**Excludes diagnostics and medical devices*		

Table 2

Metric	Acquisitions	Licensing
Upfront as share of total deal value	Median UF $101M vs. median earnout potential $183M-$286M per deal; **Upfront is ~ 35%-45%**	Mean upfront $25M vs. mean total deal value $493M; **~ 5% upfront**
Cash vs. stock/combo upfront structure	All-cash structures rose to 61% of BioPharma deals (mid-2023 to mid-2025), up sharply from 17% in 2017-2019	Cash upfront is the norm; not broken out separately by IQVIA
% of deals with any earnout/milestone structure	89% of BioPharma deals (mid-2023 to mid-2025) included an earnout; essentially flat vs. 91% in the prior two-year period	Effectively universal - most deals combine upfront with milestones

From Table 2 Above:

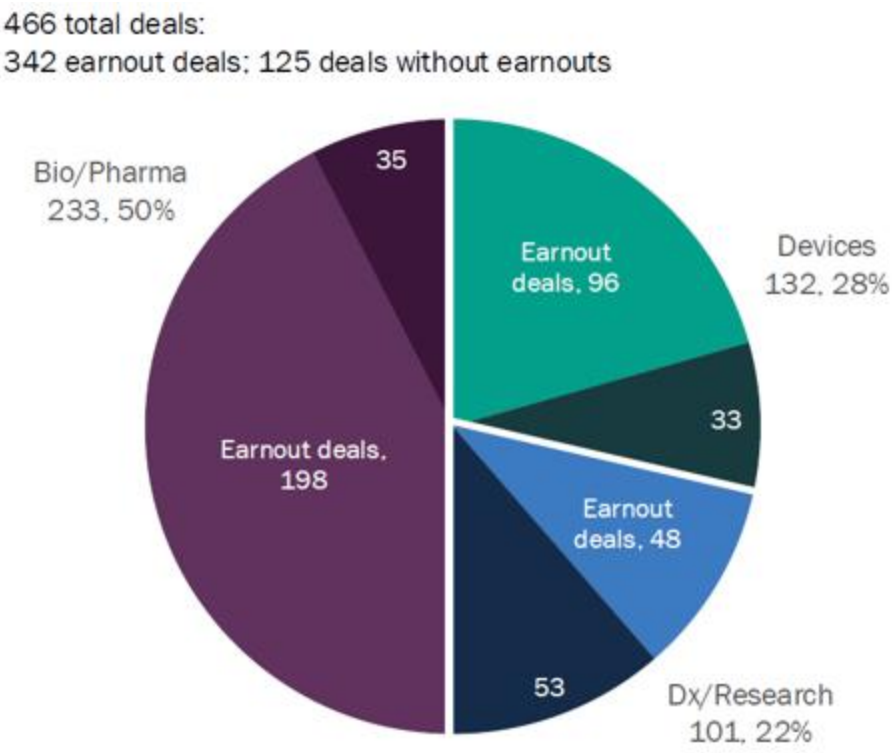
We can conclude that very few targets secure a truly clean, cash-only exit

~ 90% of acquisitions carry some form of earnout risk

Licensing deals are heavily backloaded, with upfront cash representing **~ 5% - 10%** of total announced value

As an innovator, if you are looking to partner an asset or platform, and you are weighing acquisition vs. licensing – a critical way to think about it is: "how much of my value is contingent, under whose control, and on what timeline?"

Milestone/Earnout Achievement Rates - Where the M&A Data Gets Interesting



SRS Acquiom

Table 3 below looks at what happens after signing, not just the dollars and value that is promised at deal signing

Table 3

Metric	Acquisitions (SRS Acquiom, BioPharma)
% of total earnout potential ultimately paid	**9.5%** of all potential earnout dollars paid to date ($6.5B of $81.5B)
% of milestone events due by mid-2025 paid, by event count	**22%** of BioPharma milestone events paid when due
% of milestone value paid when due, by dollars	**19 cents paid per dollar due**, up from 16 cents two years earlier
Achievement by lead product stage at closing	**Preclinical: 8%** of earnout potential paid; **Phase 2: 9%; Phase 3: 4%**; Commercial: 25%
Deals with zero milestone payments received	**43%** of 198 BioPharma earnout deals had received no payments as of the study date

Several sobering data points are captured in Table 3.

- **43%** of acquired biopharma companies with an earnout structure have received nothing beyond their upfront payment – so we shouldn't become too attached to the headline total value figure
- The Biobucks headline number is periodically referred to as "*monopoly money*" by industry veterans, in reference to value chasm arising between total dollars promised versus the money actually paid out to innovators
- In his witty summary of the SRS Acquiom findings, "Pie Crust Promises", Sebastian Gensior explains why this gap in potential

deal value versus dollars received persists, in spite of higher deal counts, more frequent alliances and greater overall deal values

Does Deal Type Influence or Predict Long-Term Success?

Data sets outlined thus far speak to deal economics at a macro level, homing on who gets paid, how much value changes hands and when payments are made.

In their July 2026 **Future Healthcare research report, HSBC analysts** pose a fundamentally different question: Does the choice of deal structure – M&A versus licensing (or vice versa) – correlate with better clinical outcomes? Would a biotech innovator be better off out-licensing versus divesting (or vice versa)?

Across 264 resolved Phase 2+ deals since 2019, HSBC compared actual "hit rates" (did the drug advance or get commercialized) against what pure probability-of-success statistics would predict for that indication and phase

The universe total for this analysis is 274 deals in Phase 2 or later stage

264 transactions had known outcomes usable for the hit-rate calculation, anchoring the comparative statistical exercise

Analysis of 264 M&A and in-licensing deals by therapy area

(274 deals in the coverage universe at Stage 2+, 2019 onwards)

Therapy area	# deals	Hit* M&A	Hit* in-licensing	Hit* comb	Expected by prior probabilities	Edge	z (SE)	Verdict	Avg price (×rNPV)	Avg PoS at deal
CNS	29	44%	40%	43%	55%	-12%	-0.91	Within noise (luck)	0.69×	60%
Cardiovascular	28	63%	50%	60%	64%	-4%	-0.27	Within noise (luck)	0.65×	65%
Dermatology	6	67%	-	67%	71%	-4%	-0.16	Within noise (luck)	1.19×	62%
Genitourinary	3	100%	-	100%	76%	24%	0.55	Within noise (luck)	0.66×	61%
Haematology	22	64%	50%	63%	57%	5%	0.43	Within noise (luck)	3.03×	55%
Immunology	26	60%	60%	60%	68%	-8%	-0.64	Within noise (luck)	0.91×	60%
Infectious Disease	29	44%	-	44%	59%	-15%	-0.89	Within noise (luck)	0.55×	78%
Metabolic/Endocrinology	19	50%	40%	43%	61%	-18%	-0.99	Within noise (luck)	0.75×	51%
Oncology	67	67%	67%	67%	58%	8%	0.89	Within noise (luck)	1.45×	50%
Ophthalmology	7	0%	-	0%	52%	-52%	-1.48	Below odds	0.61×	62%
Rare Disease/Orphan	20	80%	100%	88%	76%	11%	1.08	Beat odds (skill)	1.43×	75%
Vaccines	5	67%	100%	75%	78%	-3%	-0.14	Within noise (luck)	0.45×	74%
Other / Undisclosed	3	-	-	-	-	-	-	n/a	-	-
UNIVERSE (Ph2+, 274)	**264**	**61%**	**63%**	**61%**	**63%**	**-2%**	**-0.36**	**Within noise (luck)**	**1.19×**	**60%**

- The combined hit rate was **61%** versus a **63%** expected rate
- This represents a **-2% edge** with a **z-score of -0.36**, which is statistically indistinguishable from random chance
- In plain terms: **neither M&A nor licensing as a category shows a systematic "skill" advantage over the other**
- Discerning skill versus luck in capital allocation is statistically quite difficult at a company level
- In-licensed or acquired assets represent the market reality of effectively "buying clinical datasets" – and,
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    - Information asymmetry between buyer and seller is limited, meaning probability of success and peak sales are usually well understood by both parties
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    - An influential differentiator lies in post-deal clinical development and commercialization execution, not solely deal-structure selection itself

Additional parameters to consider:

- Deals typically incur costs for 3-5 years during clinical development before generating revenue for the following 10-14 years
- Traditional near-term returns/IRR analysis systematically fails to capture value accretion; thus a longer-duration, assumption-heavy lens is required
- Because Biopharma's ~7-8-year product half-life forces constant pipeline replenishment via either licensing or M&A, near-term return metrics may be structurally ill suited to judge deal quality.
- In reality, a multi-year, assumption-driven framework is needed to assess true value creation long term

Finally, innovators may not have the choice! Licensing deals are more common than M&A as acquisition requires more conviction.