

Searching for Innovations ? The Technological Determinants of Acquisitions in the Pharmaceutical Industry

Gautier Duflos, Etienne Pfister

Etienne.Pfister@univ-nancy2.fr gduflos@univ-paris1.fr

This article analyzes the individual determinants of acquisition activity and target choices in the pharmaceutical industry over the period 1978-2002. The “innovation gap” hypothesis states that acquiring firms lack promising drug compounds and acquire firms with more promising drug prospects. A duration model implemented over a panel of 387 firms relates the probabilities of being a purchaser or a target to financial, R&D and patent data to investigate this explanation more deeply. Purchasers are firms with a lower Tobin’s Q and decreasing sales, which could indicate that acquisitions are used to compensate for low internal growth prospects. Firms with a higher proportion of radical patents, especially in pharmaceutical patent classes, face a higher probability of being targeted, indicating that acquiring firms are indeed searching for innovative competencies. However, acquiring firms also present a significant absorptive capacity : their R&D investment increases in the year preceding the operation and their patent stock is larger and more diversified than for nonacquiring firms. Finally, we observe that over the last ten years of the sample period, firms have paid a greater attention to the size of the target’s patent portfolio, especially in biotechnology.

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