As Biopharma Turns to China for Growth, ESG Risks Remain in Focus

Evaluating evolving geopolitics, product governance, and clinical integrity among cross-border licensing deals

Morningstar Sustainalytics
June 15, 2026

Contents

1 Key Takeaways
2 Why China Has Become Strategically Essential
3 From Risk to Opportunity: Where does ESG Matter Most?
6 Product Governance and Business Ethics in Focus
8 Deals Overview
10 Western Biopharma Licensees with Low ESG Risk Rating
11 Conditions That Could Reshape Cross-Border Collaboration

Author
Pandora Zilstorff
Senior ESG Research Analyst I Healthcare
pandora.zilstorff@morningstar.com

Contributor
Lorena Tobosaru
Senior Associate ESG Research Analyst I Healthcare
lorena.tobosaru@morningstar.com

Key Takeaways

- Amid global drug pricing pressure, looming patent expiries, and rising drug development costs, Europe- and US-domiciled biopharma firms are turning to China as a source of external innovation to drive growth and replenish product pipelines.
- In 2025, a total of 186 cross-border deals between Western and Chinese biopharma firms were announced, followed by 38 deals in the first two months of 2026.[1]
- China's full-chain capabilities from early research to production provide clear growth opportunities and cost advantages for Western licensees. However, cross-border licensing deals and R&D collaborations may introduce material ESG risks for Europe and US licensees that extend beyond geopolitical considerations. Key ESG risk areas include product governance and business ethics issues.
- This report examines the ESG risks associated with cross-border licensing deals and partnerships, and outlines how investors can screen Europe- and US-domiciled companies involved in these transactions.
- By combining Morningstar Sustainalytics ESG Risk Ratings and Morningstar Equity Research data, we spotlight firms that may be better positioned to manage ESG risks while capitalizing on China's rapidly evolving biopharmaceutical innovation landscape.

Select Western Pharma Companies with Strong ESG Management Involved in Cross-Border Licensing

Licensee	Ticker	Licensor	Date	Therapeutic Area Focus	Deal Structure	ESG Risk Ratings Score	Overall ESG Management Score	Morningstar Rating For Stocks	Morningstar Moat Rating	Morningstar Uncertainty Rating
Bristol-Myers Squibb	BMY	Hengrui Pharmaceuticals	Q2 2026	Oncology, Hematology & Immunology	USD 600 mn upfront; USD 15.2 bn milestones; Royalties on sales	14.60	66.30	****	Wide	Medium
GSK	GSK	Hengrui Pharmaceuticals	Q3 2025	Respiratory, Immunology & Oncology	USD 500 mn upfront; USD 12 bn milestones; Tiered royalties on sales	13.70	74.10	****	Wide	Medium
Pfizer	PFE	Innovent Biologics	Q2 2026	Oncology	USD 650 mn upfront; USD 9.9 bn milestones; Royalties on sales	15.90	68.90	****	Narrow	Medium
Sanofi	SAN	Sino Biopharm	Q1 2026	Inflamation	USD 135 mn upfront; USD 1.3 bn milestones; Royalties on sales	13.20	75.60	****	Narrow	Medium

Source: Morningstar Sustainalytics, Morningstar Equity Research and Company Reports. Data as of June 12, 2026.
Note: ESG Risk Rating scores range from Negligible (0-10), Low (10-20), Medium (20-30), High (30-40), to Severe (40+). Management scores range from Weak (0-25), Average (25-50), to Strong (50+).

[1] Wu, K., and A. Silver. China biotech licensing boom to hit record in 2026 as pipeline swells. Reuters. February 13, 2026.
https://www.reuters.com/sustainability/climate-energy/china-biotech-licensing-boom-hit-record-2026-pipeline-swells-2026-02-13/

Why China Has Become Strategically Essential

Western biopharma companies face mounting structural challenges. Rising scientific complexity combined with high clinical trial failure rates and increasing costs have pushed R&D expenses higher, while regulatory complexity in Europe and the US continues to lengthen and delay development and commercialization timelines.[2] At the same time, patent expiries threaten future revenues, intensifying the need for pipeline replenishment.[3]

Against this backdrop, China is rapidly emerging as a source of biopharmaceutical innovation, offering faster development cycles, cost advantages, and a growing pool of high-quality assets.[4] China's ascent on the global biopharmaceutical scene is underpinned by significant public and private investment, regulatory reform, and the country's large-scale manufacturing and research capacity.[5]

Notably, China has overtaken Europe in drug discovery and early-stage development activities and is narrowing the gap with the US in novel drug candidates. In 2024, more than 1,250 novel drugs entered early-stage development in China, surpassing Europe and nearing the US count of approximately 1,440.[6] China's growing innovation is also increasingly reflected in global pipelines: approximately one-third of new compounds in US pharma pipelines as of 2026 originated in China.[7]

Tapping into China's biopharmaceutical innovation through cross-border licensing deals or R&D partnerships may offer significant benefits for Western firms, allowing them to diversify pipelines, expand therapeutic area focus, and lower in-house R&D costs through clinical or regulatory milestone-based risk sharing.[8] Such arrangements represent an alternative cost-effective approach to accessing external innovation compared with traditional mergers and acquisitions.

Such opportunities, as well as the maturing profile of the Chinese biopharmaceutical market and key operational, regulatory, and financial challenges in Europe and the US,[9] have made external innovation sourcing extremely attractive, but also increasingly necessary for Western biopharma firms amid approaching patent cliffs, emerging pricing pressures and regulatory complexity.[10]

Still, these cross-border licensing deals and R&D partnerships raise important questions for investors: What ESG risks accompany such cross-border licensing deals and R&D collaborations, and how effectively are companies positioned to manage them?

---

[2] Deloitte. Navigating the GLP-1 boom. Deloitte. May 4, 2026. https://www.deloitte.com/us/en/Industries/life-sciences-health-care/perspectives/navigating-the-glp-boom.html
[3] Anderson, K., Lee, K. Healthcare Observer: Biopharma Product Pipelines Rise to Meet Steeper Patent Cliffs. Morningstar. May, 2026.
[4] Goldman Sachs. China is increasing its share of global drug development. Goldman Sachs. December 17, 2025. https://www.goldmansachs.com/insights/articles/china-is-increasing-its-share-of-global-drug-development
[5] Chemical & Engineering News. China's biotech industry is on the rise. Will it reshape US pharma? Chemical & Engineering News. September 5, 2025. https://cen.acs.org/pharmaceuticals/drug-development/Chinas-biotech-industry-rise-reshape/103/web/2025/09
[6] Tong, A., J. Hong, and S. Chen. China biotech's stunning advance is changing the world's drug pipeline. Bloomberg. July 13, 2025. https://www.bloomberg.com/news/features/2025-07-13/china-drugmakers-catching-up-to-us-big-pharma-with-new-medicine-innovation
[7] Blotnick, A. The Year China Surpassed the USA in Biotech Innovation, Deal Value, and Clinical Output. Synbiobeta. January 22, 2026. https://www.synbiobeta.com/read/the-year-china-surpassed-the-usa-in-biotech-innovation-deal-value-and-clinical-output
[8] Excellence First Enterprise Consultancy. Chinese biopharma out-licensing: Ushering in a new era for UK-China collaboration in 2025. Cambridge Network. July 21, 2025. https://www.cambridgenetwork.co.uk/news/chinese-biopharma-out-licensing-ushering-new-era-uk-china-collaboration-2025
[9] Torsekar, M. The China dependence big pharma doesn't want Washington to see. Coalition for a Prosperous America. January 14, 2026. https://prosperousamerica.org/the-china-dependence-big-pharma-doesnt-want-washington-to-see/
[10] Anderson, K., Lee, K. Healthcare Observer: Biopharma Product Pipelines Rise to Meet Steeper Patent Cliffs. Morningstar. May, 2026.

From Risk to Opportunity: Where Does ESG Matter Most?

Recent biopharmaceutical cross-border licensing deals and R&D partnerships increasingly sit at the intersection of broader geopolitical risks and key ESG considerations.

Cross-border licensing deals and R&D partnerships operate under divergent political and regulatory expectations, as the US and the EU become more sensitive to intellectual property protection, supply chain security, biosecurity concerns, and broader economic reliance on China. Ultimately, this context may heighten risks related to intellectual property, data security, regulatory compliance, and supply chains, among others. Potential implications may include stricter data governance requirements and increased government scrutiny of cross-border R&D collaborations, as well as operating complexities, which may affect the durability and the success of such partnerships.

The degree of exposure to potential geopolitical risks may depend on several factors, including how integrated the R&D collaborations may be. Early-stage licensing agreements with no or limited R&D integration may face relatively contained risks, whereas co-development R&D partnerships may create dependencies that are more vulnerable to geopolitical disruption and policy shifts.

US Policy: Managing Geopolitical and National Security Risks

Rising geopolitical tensions between the US and China, as well as incentives to onshore US drug manufacturing, tariffs, and emerging biosecurity legislation, introduce significant policy and regulatory uncertainty that may affect the viability of the industry's emerging innovation model.[11] Policy shifts such as import-export controls, data localization requirements, outbound investment scrutiny or restrictions on technology transfers, may disrupt development timelines, increase compliance costs, or limit commercial viability.

A recent report[12] from the US National Security Commission on Emerging Biotechnology warned that China's biotechnology expansion could challenge US leadership in the sector;[13] recommending outbound investment rules to "ensure that US capital does not support Chinese development" of biotechnologies that come with national security risks.[14] In parallel, there is growing political momentum in the US to expand the COINS Act (2025)[15] to include biotechnology, potentially restricting outbound investment and certain deal structures involving China. Such developments could complicate licensing arrangements with Chinese firms by introducing delays, increasing compliance burdens, or requiring deal restructuring, although an outright prohibition of cross-border licensing agreements remains unlikely at this stage.[16]

---

[11] Morgan Stanley. China biotech boom: Generics producer to innovation leader. Morgan Stanley. September 10, 2025. https://www.morganstanley.com/insights/articles/china-biotech-boom-generics-to-innovators

[12] National Security Commission on Emerging Biotechnology. The Future of U.S.–China Biotechnology Competition. Washington, DC: National Security Commission on Emerging Biotechnology. December 2025. https://www.biotech.senate.gov/wp-content/uploads/2025/12/NSCEB-Future-of-U.S.-China-Biotech-Competition-Dec-2025.pdf

[13] Ibid.

[14] Pagliarulo, N. US risks losing biotech edge to China, report warns. BioPharma Dive. April 8, 2025. https://www.biopharmadive.com/news/us-china-biotech-report-commission/744718/

[15] The COINS Act (Comprehensive Outbound Investment National Security Act) is a national security measure designed to monitor and restrict US outbound investments into sensitive foreign sectors, particularly in countries of concern, such as China. Enacted as part of the National Defense Authorization Act for Fiscal Year 2026.

[16] Liu, A. As calls for COINS Act expansion grow, will new rules sweep up China biotech licensing? Fierce Biotech. May 26, 2026. https://www.fiercepharma.com/biotech/calls-coins-act-expansion-grow-new-rules-sweep-china-biotech-licensing

The US Biosecure Act,[17] signed into law in December 2025, restricts US federal agencies from procuring biotechnology products or services from Chinese firms of concern and from contracting with entities that rely on them.[18] Earlier, in June 2025, the US FDA halted clinical trials that included shipping American biological materials to "hostile countries," citing national security.[19] However, as of this writing, neither development has restricted cross-border licensing agreements or affected any cross-border licensing agreements that we know of.

Combined, these policies highlight the US momentum toward a more protective biopharmaceutical environment, potentially laying the groundwork for future legislative or executive actions that could affect cross-border licensing deals and R&D partnerships.[20]

EU Policy: Measures to Safeguard Medicine Supply and Innovation

The EU's proposed (2025) Critical Medicines Act, currently under revision, and the ongoing EU Pharmaceutical Package reform set out to tackle shortages and reduce structural dependencies on non-EU countries for critical medicines and raw materials, as well as to improve regulatory efficiency and incentivize EU-based innovation and manufacturing, positioning security of supply and resilience as explicit objectives.[21] These EU measures are broadly framed as building resilience and derisking drug supply, manufacturing, and innovation, rather than China-specific decoupling as more explicitly seen in the US.[22,23]

Neither of these EU measures sets out to prohibit EU-domiciled biopharma companies from entering into cross-border licensing agreements with Chinese companies; however, if these EU measures are implemented, they may indirectly affect partnerships by introducing operational burdens and compliance obligations around supply, manufacturing, shortage prevention, and reporting for certain medicines, among others, potentially hampering the success of post-licensing execution.[24] Over time, this could lead to more complex deal structures, including provisions for EU-based manufacturing, dual sourcing strategies, and technology transfers.

ESG Management Amid Geopolitical Uncertainty

The above policy developments, set against an evolving geopolitical landscape and national security concerns, could lead to political and regulatory scrutiny. If perceived as national security concerns, these developments may potentially cause delays, audits, forced contract renegotiations, or, in more extreme cases, block R&D deals.

---

[17] The US Biosecure Act is a national-security measure aimed at reducing US dependence on Chinese biotechnology providers which are linked to the Chinese military, and was signed into law in December 2025, as part of the National Defense Authorization Act for Fiscal Year 2026.
[18] Zengerle, P. Massive defense bill passes US Congress, including troop pay, Ukraine and social issues. Reuters. December 17, 2025. https://www.reuters.com/business/aerospace-defense/massive-defense-bill-passes-us-congress-including-troop-pay-ukraine-social-2025-12-17/
[19] Chemical & Engineering News. China's biotech industry is on the rise. Will it reshape US pharma? Chemical & Engineering News. September 5, 2025. https://cen.acs.org/pharmaceuticals/drug-development/Chinas-biotech-industry-rise-reshape/103/web/2025/09
[20] Zercher, B. PitchBook. Analyst Note: The Chinese Biopharma Landscape: Where New Assets Are Born. PitchBook (a Morningstar company). January 23, 2026. https://pitchbook.com/news/reports/q1-2026-pitchbook-analyst-note-the-chinese-biopharma-landscape-where-new-assets-are-born
[21] Brown, A., and J. Groenewegen-Lau. Lab leader to market ascender: China's rise in biotechnology. MERICS. April 24, 2025. https://merics.org/en/report/lab-leader-market-ascender-chinas-rise-biotechnology
[22] Stevens, C. EU–China relations in 2025: De-risking, rivalry, and the search for balance. EU Reporter. October 17, 2025. https://www.eureporter.co/world/china-2/china-eu/2025/10/17/eu-china-relations-in-2025-de-risking-rivalry-and-the-search-for-balance/
[23] Rühlig, T., D. Francas, and M. Catarata. The weak point: Why pharmaceutical security belongs at the heart of European defence. European Union Institute for Security Studies. April 10, 2026. https://www.iss.europa.eu/publications/commentary/weak-point-why-pharmaceutical-security-belongs-heart-european-defence
[24] Krukover, A. The Critical Medicines Act: A new pillar of European pharmaceutical resilience. Taylor Wessing. June 26, 2025. https://www.taylorwessing.com/en/insights-and-events/insights/2025/06/the-critical-medicines-act

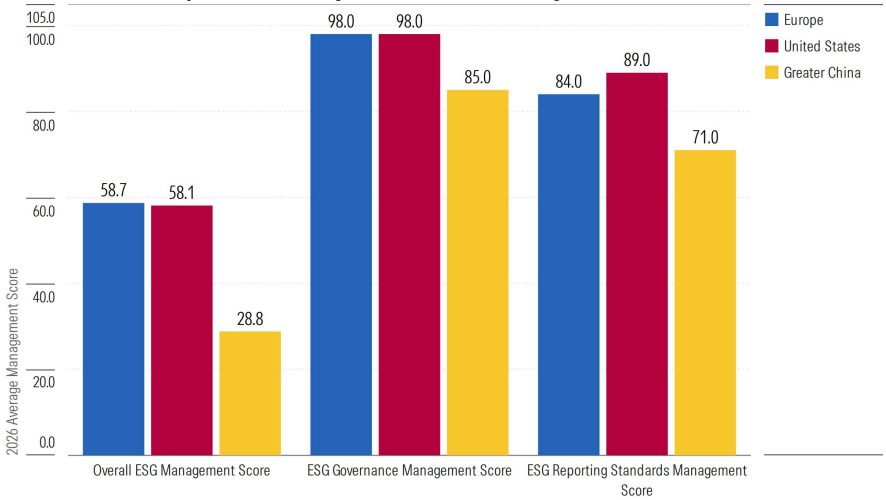
Amid a potentially more protective, risk-conscious biopharmaceutical environment, cross-border collaborations may increasingly be shaped by geopolitical and security considerations. Investors should anticipate that integrated partnerships with Chinese firms may carry higher operational and compliance risks, potentially affecting drug development timelines, costs, and the associated commercial opportunities.

Strong management of ESG issues may help support Western biopharma's response to the emerging and shifting geopolitical landscape. In effect, firms that exhibit strong governance structures, comprehensive due diligence and proactive risk mitigation may be potentially better prepared to manage the related risks and uncertainties through improved risk oversight, monitoring processes, and stronger controls, potentially rendering companies more resilient and agile amid geopolitical uncertainty.

Morningstar Sustainalytics' ESG Risk Ratings data (Exhibit 1) shows that Europe- and US-domiciled firms, on average, exhibit the strongest ESG management across select key metrics – namely, Overall ESG Management, as well as management indicators ESG Governance and ESG Reporting Standards. The latter two indicators assess companies' ESG governance systems and reporting structures, with stronger performance reflecting board-level oversight and accountability for ESG issues, more robust risk mitigation processes, and alignment with internationally recognized reporting standards that support strategy and transparency. In combination, this means these firms have more mature ESG governance frameworks, stronger risk mitigation capabilities, and higher levels of transparency.

This indicates that Europe- and US-domiciled firms, on average, appear well positioned to navigate the ESG implications of the shifting geopolitical landscape. However, strong ESG management and practices alone cannot eliminate potential geopolitical risks, particularly where national security considerations drive policy decisions. For investors, this underscores the importance of assessing not only deal activity but also the strength of ESG management and oversight mechanisms. Biopharma companies that demonstrate strong ESG performance may gain a competitive advantage, positioning themselves to capture R&D value in the shifting global market.

Exhibit 1 Overall ESG and Key Indicator Management Scores Across Regions in 2026



Source: Morningstar Sustainalytics. Data as of May 2026.
Note: Greater China includes firms domiciled in China, Hong Kong, and Taiwan. Europe includes firms domiciled in EU member states, as well as Switzerland and the UK. Data includes companies in the biotechnology and pharmaceuticals subindustries. Management scores range from Weak (0-25), Average (25-50), to Strong (50+).

Product Governance and Business Ethics in Focus: Quality and Safety, Clinical Trial Management and Trial Data Transparency

While geopolitics can exacerbate key ESG risks, issues related to Material ESG Issues (MEIs) such as Product Governance and Business Ethics should remain in focus.

Product Governance: Quality, Safety, and Liability Exposure

Biopharmaceuticals carry inherent quality and safety risks, making strong product governance management essential to protect patients, preserve clinical value, and support commercialization.

Cross-border licensing can expand pipeline breadth, diversify portfolio offerings, and reduce reliance on limited asset classes.[25] However, it may also reshape product liability risks for companies. Areas such as cardiovascular and metabolic diseases tend to carry higher litigation risks due to large patient populations and long treatment durations, while oncology and rare diseases generally face lower liability risk, due to risk-benefit tolerance. Cross-border licensing agreements can reduce litigation risk by diversifying therapeutic exposure or increase it by deepening reliance on certain high-risk therapeutic areas.[26] For investors, the question is not merely pipeline expansion, but how licensing deals and R&D collaborations impact therapeutic area focus and rebalance liability risks for companies.

Regulatory fragmentation remains a material concern for licensing deals and R&D partnerships, despite recent reforms in China that have improved and streamlined drug review and approval processes.[27] Variations in site inspection rigor, reporting transparency, good manufacturing practices enforcement, and coordination between Chinese and Western regulators across quality and safety standards may create compliance friction. This may lead to negative inspection observations, remediation demands, administrative actions, or drug recalls, all of which may carry operational and financial consequences for licensing firms, potentially impeding successful commercialization and the deals' long-term value.

Business Ethics: Clinical Trial Oversight and Data Transparency

Clinical trial oversight and trial data transparency are similarly key ESG issues. Weak clinical trial management, inconsistent documentation, inadequate site and data auditing, and limited data transparency can lead to trial participant and patient harm, regulatory penalties, repeat studies, or approval delays.[28] These risks can materially reduce asset value by increasing development costs, lowering the probability of regulatory success, and delaying time to market, thereby, potentially eroding deal value and weakening the cost-efficiency that partially underpins these partnerships.

Drugs developed as part of cross-border deals will increasingly rely on clinical data generated in China. Therefore, licensing firms must ensure that trial ethical conduct, data integrity, auditability, and transparency standards align with international regulatory expectations to avoid heightened scrutiny and potential value disruption.

---

[25] von Minden, M., and R. Gonzalez. Why licensing deals are a powerful source of growth in life sciences. EY. October 3, 2024. https://www.ey.com/en_gl/insights/life-sciences/why-licensing-deals-are-a-powerful-source-of-growth-in-life-sciences

[26] Conover, D. Morningstar. What litigation risk means for Big Pharma and biotech valuations. Morningstar. September 10, 2021. https://www.morningstar.com/stocks/what-litigation-risk-means-big-pharma-biotech-valuations

[27] Chemical & Engineering News. China's biotech industry is on the rise. Will it reshape US pharma? Chemical & Engineering News. September 5, 2025. https://cen.acs.org/pharmaceuticals/drug-development/Chinas-biotech-industry-rise-reshape/103/web/2025/09

[28] Terry, C. Be brave, be bold: Measuring the return from pharmaceutical innovation. Deloitte. 2025. https://www.deloitte.com/content/dam/assets-zone2/uk/en/docs/industries/life-sciences-health-care/2025/LSHC_R_D_ROI_Report_2025.pdf

Overall, subpar quality and safety systems, poor clinical trial oversight, or insufficient trial data transparency may erode deal value and hinder global commercialization, underscoring the importance of strong governance frameworks and management systems to mitigate potential legal, regulatory, and operational risks.

Performance Across Key Material ESG Issues

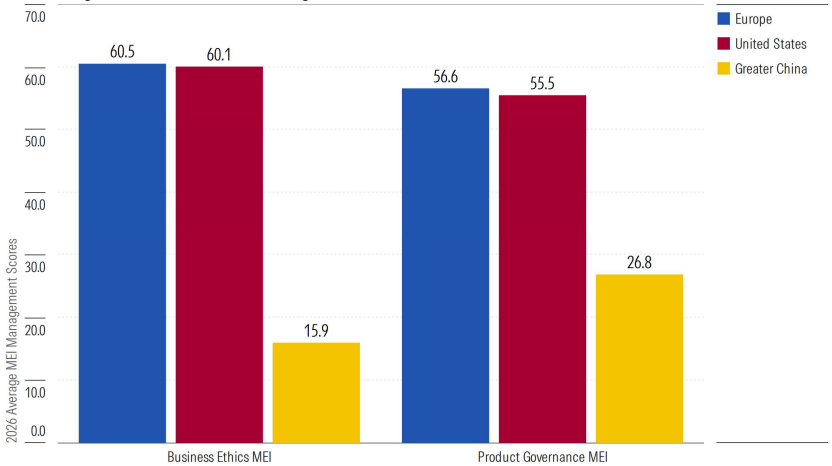
Based on Morningstar Sustainalytics' ESG Risk Ratings data, Exhibit 2 and 3 show key differences across US-, Europe- and China-domiciled biopharma firms' management performance in terms of Product Governance and Business Ethics MEIs, and the following management indicators from the ESG Risk Ratings: Product and Service Safety Programme, Clinical Trial Programme, and Trial Data Transparency.

These metrics are critical as they reflect the robustness of companies' governance, risk management and transparency practices in areas linked to patient safety, regulatory compliance, and product integrity. Strong performance signals an ability to proactively manage operational and ethical risks. This is increasingly important in collaborations with Chinese firms, where differences in regulatory frameworks, oversight standards and disclosure practices may amplify execution and compliance risks.

On average, Europe and US firms emerge as clear leaders, reporting strong management performance across the select metrics, suggesting strong risk mitigation and preparedness to mitigate these potential ESG issues. Comparatively, Chinese firms score significantly lower across the same select metrics (Exhibit 2 and 3). Weaker governance infrastructure can lead to fragmented oversight of ESG risks, particularly in complex areas such as clinical trials and product safety. Regardless of differences in disclosure practices, the variations in the scores indicate structural gaps in governance systems, oversight, risk mitigation, and transparency practices among regions.

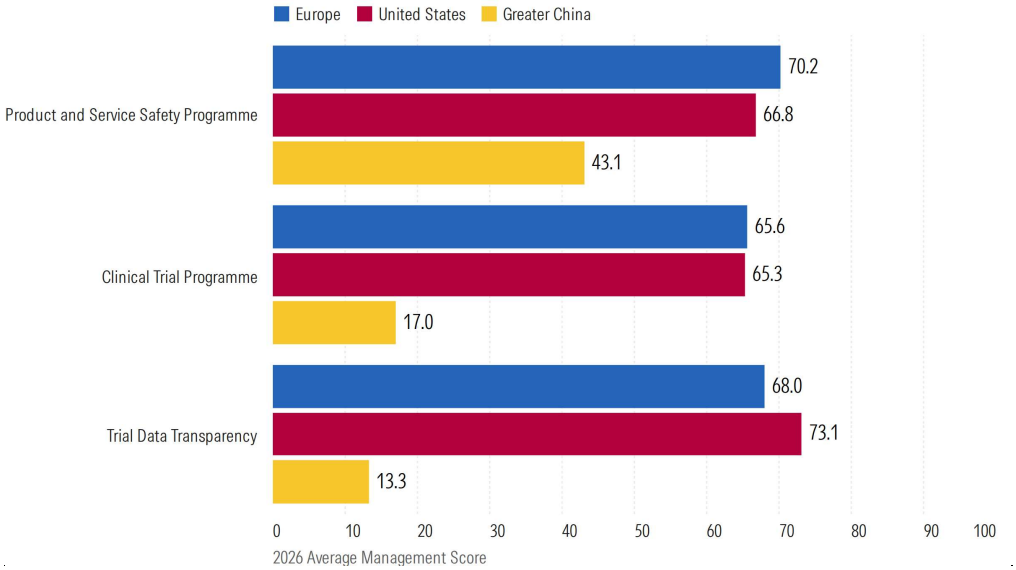
For Europe- and US-domiciled firms, these disparities introduce important risk considerations. Weaker ESG practices at the partner level may translate into elevated operational and regulatory risks. These risks are further amplified by increasing geopolitical tensions and potential regulatory scrutiny, which may heighten issues around compliance, data integrity, and ethical standards. As such, regional ESG misalignment may not only affect risk exposure but also the execution and success of partnerships.

Exhibit 2 MEI Management Scores Across Regions in 2026



Source: Morningstar Sustainalytics. Data as of May 2026.
Note: Greater China includes firms domiciled in China, Hong Kong, and Taiwan. Europe includes firms domiciled in EU member states, as well as Switzerland and the UK. Data includes companies in the biotechnology and pharmaceuticals subindustries. Management scores range from Weak (0-25), Average (25-50), to Strong (50+).

Exhibit 3 Scores Across Select Key Management Indicators Across Regions in 2026



Source: Morningstar Sustainalytics. Data as of May 2026.
Note: Greater China includes firms domiciled in China, Hong Kong, and Taiwan. Europe includes firms domiciled in EU member states, as well as Switzerland and the UK. Data includes companies in the biotechnology and pharmaceuticals subindustries. Management scores range from Weak (0-25), Average (25-50), to Strong (50+).

Deals Overview: Cross-Border Licensing Deals and R&D Partnerships

Despite rising geopolitical tensions, policy volatility, and key ESG risks, the number and value of cross-border licensing agreements are expected to grow through 2026, given the perceived cost efficiencies and strategic importance of these deals.

Exhibit 4 presents a non-exhaustive overview of key cross-border licensing deals and R&D partnerships between firms based in Europe or the US and Chinese firms between Q1 2025 and Q2 2026. The selection captures deals involving large market cap companies, and considers deal size, therapeutic area focus, and date, among other considerations.

As seen in Exhibit 4, the select list of licensing deals and R&D partnerships span small-molecule drugs and biologics, targeting several therapeutic areas and covering platform technologies as well. According to Pitchbook, oncology and antibodies represent the largest bucket of related deals, both in terms of deal count and value.[29]

[29] Zercher, B. PitchBook. Analyst Note: The Chinese Biopharma Landscape: Where New Assets Are Born. PitchBook (a Morningstar company). January 23, 2026. https://pitchbook.com/news/reports/q1-2026-pitchbook-analyst-note-the-chinese-biopharma-landscape-where-new-assets-are-born

Exhibit 4 Overview of Select Deals in 2025 and 2026

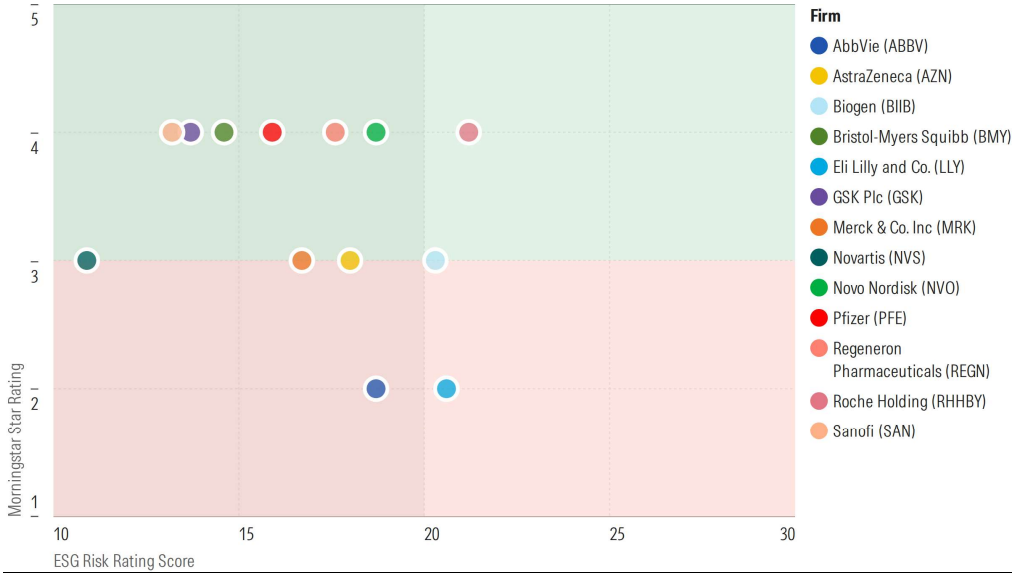
Licensee	Licensor	Date	Therapeutic Area Focus	Deal Structure	ESG Risk Ratings Score	Overall ESG Management Score	BE Management Score	PG Management Score	Morningstar Rating for Stocks
AbbVie (ABBV)	RemeGen	Q1 2026	Oncology	USD 650 mn upfront; USD 4.95 bn milestones; Royalties on sales	18.7	61.2	66.3	66.3	★★☆☆☆
	Simcere Pharmaceutical	Q1 2025	Oncology	Undisclosed upfront; USD 1 bn milestones; Royalties on sales					
AstraZeneca (AZN)	Harbour BioMed	Q1 2025	Immunology & Oncology	USD 175 mn upfront; USD 4.4 bn milestones; Royalties on sales	18.0	66.6	75.0	66.3	★★★☆☆
	CSPC Pharmaceutical	Q1 2026	Obesity & T2D	USD 1.2 bn upfront; USD 3.5 bn milestones; Royalties on sales					
Biogen (BIIB)	TJ Biopharma	Q2 2026	Immunology	USD 100 mn upfront; USD 850 mn milestones; Royalties on sales	20.3	51.3	51.2	50.0	★★★☆☆
Bristol-Myers Squibb (BMY)	Harbour BioMed	Q4 2025	Immunology & Oncology	USD 90 mn upfront; USD 1 bn milestones; Royalties on sales	14.6	66.3	62.5	61.2	★★★★☆
	Hengrui Pharmaceuticals	Q2 2026	Oncology, Hematology & Immunology	USD 600 mn upfront; USD 15.2 bn milestones; Royalties on sales					
Eli Lilly and Co. (LLY)	Innovent Biologics	Q1 2026	Oncology & Immunology	USD 350 mn upfront; USD 8.5 bn milestones; Royalties on sales	20.6	57.3	57.5	66.3	★★☆☆☆
GSK Plc (GSK)	Hengrui Pharmaceuticals	Q3 2025	Respiratory, Immunology & Oncology	USD 500 mn upfront; USD 12 bn milestones; Royalties on sales	13.7	74.1	74.1	59.5	★★★★☆
	SiranBio	Q2 2026	Cardiometabolic	Undisclosed upfront; USD 1 bn milestones; Royalties on sales					
Merck & Co Inc (MRK)	Hengrui Pharmaceuticals	Q1 2025	Cardiovascular	USD 200 mn upfront; USD 1.7 bn milestones; Royalties on sales	16.7	69.1	66.3	66.3	★★★☆☆
Novartis (NVS)	Argo Biopharma	Q3 2025	Cardiovascular	USD 160 upfront; USD 5.2 bn milestones; Royalties on sales	10.9	82	82.5	95.0	★★★☆☆
Novo Nordisk (NVO)	The United Laboratories	Q1 2025	Obesity & T2D	USD 200 mn upfront; USD 1.8 bn milestones; Royalties on sales	18.7	64.5	75.4	62.6	★★★★☆
Pfizer (PFE)	3SBio	Q1 2025	Oncology	USD 1.2 bn upfront; USD 4.8 bn milestones; Royalties on sales	15.9	68.9	81.3	69.4	★★★★☆
	Innovent Biologics	Q2 2026	Oncology (Antibody-drug conjugates)	USD 650 mn upfront; USD 9.9 bn milestones; Royalties on sales					
Regeneron Pharmaceuticals (REGN)	Hansoh Pharma	Q2 2025	Cardiometabolic (Obesity)	USD 80 mn upfront; USD 1.9 bn milestones; Royalties on sales	17.6	55.0	76.2	50.0	★★★★☆
Roche Holding (RHHBY)	Hansoh Pharma	Q4 2025	Oncology	USD 80 mn upfront; Eligible for milestones; Royalties on sales	21.2	58.1	71.3	53.8	★★★★☆
Sanofi (SAN)	Earendil Labs	Q3 2025	Immunology	USD 125 mn upfront; USD 1.7 bn milestones; Royalties on sales	13.1	75.7	78.8	75.0	★★★★☆
	Sino Biopharm	Q1 2026	Inflammation	USD 135 mn upfront; USD 1.3 bn milestones; Royalties on sales					

Source: Morningstar Sustainalytics, Morningstar Equity Research and Company Reports. Data as of June 12, 2026.
Note: ESG Risk Rating scores range from Negligible (0-10), Low (10-20), Medium (20-30), High (30-40), to Severe (40+). Management scores range from Weak (0-25), Average (25-50), to Strong (50+).

Western Biopharma Licensees with Low ESG Risk Rating

Combining insights from the ESG Risk Ratings and Morningstar Equity Research (Exhibit 5), we find that Bristol-Myers Squibb (BMY), GSK (GSK), Pfizer (PFE) and Sanofi (SNF) stand out among the Western firms involved in recent key cross-border licensing agreements with Chinese Biopharma companies. The firms pair 4-star valuations with low ESG Risk Rating scores (10-20), positioning them as relative outperformers among licensing companies in managing potential ESG risks associated with cross-border research deals, as well as in navigating the impact of a shifting geopolitical environment.

Exhibit 5 Screening Companies: ESG Risk Rating Score and Morningstar Equity Rating



Source: Morningstar Sustainalytics and Morningstar Equity Research. Data as of June 12, 2026.
Note: Morningstar Star Ratings range from 1 or 2 stars (overvalued), 3 stars (fairly valued), to 4 or 5 stars (undervalued). Morningstar Sustainalytics ESG Risk Rating categories range from Negligible risk (0-10), Low risk (10-20), Medium risk (20-30), High risk (30-40), and Severe risk (40+).

Bristol-Myers Squibb (BMY), GSK (GSK), Pfizer (PFE) and Sanofi (SNF) are all rated 4 stars by Morningstar Equity Research (Exhibit 5). Further, all four firms demonstrate strong overall ESG management (Exhibit 4), as well as strong management for the Business Ethics and Product Governance MEIs.

Strong performance in these areas reflects well-established governance frameworks and a proactive approach to managing operational, regulatory, and ethical risks. This may be particularly important for companies engaging in cross-border collaborations with Chinese biopharma firms, where differences in regulatory environments, oversight standards, and disclosure practices can heighten execution and compliance risks, rendering robust product governance and strong ethical standards essential to safeguarding partnership outcomes.

Noteworthy deals to highlight are Bristol-Myers Squibb's (BMY) and GSK's (GSK) deals with Hengrui Pharmaceuticals, licensing a portfolio of 13 and 12 drugs, respectively, across multiple therapeutic areas, as well as Pfizer's (PFE) collaboration with Innovent Biologics across 12 programs. These deals signal a shift from traditional single-asset licensing toward portfolio-based deals. Portfolio licenses offer diversification benefits, such as spreading clinical, regulatory, and commercial risk across multiple assets, but they may also introduce greater operational and integration complexity.

The success of these licensing deals will depend on multiple factors, including the outcomes of clinical trials, the demonstrated efficacy and safety of their licensed assets, and effective strategies for commercialization and market access, as well as collaboration with the licensor, all dependent on broader geopolitical dynamics in an increasingly volatile policy environment. Failure to address these challenges could erode deal value and hinder global commercialization and growth strategies.

Conditions That Could Reshape Cross-Border Collaboration

As China's biopharmaceutical market matures, certain ESG risks, particularly those related to quality and safety, clinical trial oversight, and data transparency, could decline if Chinese regulatory standards continue to converge with international ones, reducing potential transmission risks for Western licensee firms.[30] However, this scenario is set against the backdrop of an increasingly complex geopolitical environment that could reshape the conditions under which cross-border collaboration plays out. This includes any intensification of US-China tensions with both playing out a more assertive, security-driven policy stance,[31] as well as EU policy measures to improve the bloc's resilience and reduce overall reliance on non-member countries.

At the same time, rising structural, operational, regulatory, and financial constraints for American and European companies may reinforce China's advantage in early-stage asset generation, supported by cost-efficient development ecosystems and growing scientific capacity. As a result, cross-border licensing deals are likely to remain a critical strategy for pipeline development, even if they become more exposed to geopolitical and ESG-related risks.

For investors, this evolving landscape underscores the need to assess not only the opportunity set, but also how effectively companies can navigate geopolitical friction while preserving deal execution and value.

[30] Chemical & Engineering News. China's biotech industry is on the rise. Will it reshape US pharma? Chemical & Engineering News. September 5, 2025. https://cen.acs.org/pharmaceuticals/drug-development/Chinas-biotech-industry-rise-reshape/103/web/2025/09

[31] Zercher, B. PitchBook. Analyst Note: The Chinese Biopharma Landscape: Where New Assets Are Born. PitchBook (a Morningstar company). January 23, 2026. https://pitchbook.com/news/reports/q1-2026-pitchbook-analyst-note-the-chinese-biopharma-landscape-where-new-assets-are-born

About Morningstar Sustainalytics

Morningstar Sustainalytics is a leading ESG research, ratings, and data firm that supports investors around the world with the development and implementation of responsible investment strategies. For more than 30 years, the firm has been at the forefront of developing high-quality, innovative solutions to meet the evolving needs of global investors. Today, Morningstar Sustainalytics works with hundreds of the world's leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. The firm also works with hundreds of companies and their financial intermediaries to help them consider sustainability in policies, practices, and capital projects. For more information, visit www.sustainalytics.com.

Copyright ©2026 Sustainalytics, a Morningstar company. All rights reserved.

The information, methodologies, data and opinions contained or reflected herein (the "Information") are proprietary to Sustainalytics and/or its third-party content providers, intended for internal, non-commercial use only and may not be copied, distributed or used in any other way, including via citation, unless otherwise explicitly agreed with us in writing. The Information is not directed to, nor intended for distribution to or use by India-based clients and/or users, and the distribution of Information to India resident individuals and entities is not permitted.

The Information is provided for informational purposes only and (1) does not constitute an endorsement of any product, project, investment strategy or consideration of any particular environmental, social or governance related issues as part of any investment strategy; (2) does not constitute investment advice nor recommends any particular investment, nor represents an expert opinion or negative assurance letter; (3) is not part of any offering and does not constitute an offer or indication to buy or sell securities, to select a project nor enter into any kind of business transaction; (4) is not an assessment of the economic performance, financial obligations nor creditworthiness of any entity; (5) is not a substitute for professional advice; (6) has not been submitted to, nor received approval from, any relevant regulatory or governmental authority. Past performance is no guarantee of future results.

The Information is based on information made available by third parties, is subject to continuous change and no warranty is made as to its completeness, accuracy, currency, nor the fitness of the Information for a particular purpose. The Information is provided "as is" and reflects Sustainalytics' opinion solely at the date of its publication.

Neither Sustainalytics nor its third-party content providers accept any liability in connection with the use of the Information or for actions of third parties with respect to the Information, in any manner whatsoever, to the extent permitted by applicable law.

Any reference to third party content providers' names is solely to acknowledge their ownership of information, methodologies, data and opinions contained or reflected within the Information and does not constitute a sponsorship or endorsement of the Information by such third-party content provider. For more information regarding third-party content providers visit http://www.sustainalytics.com/legal-disclaimers

Sustainalytics may receive compensation for its ratings, opinions and other services, from, among others, issuers, insurers, guarantors and/or underwriters of debt securities, or investors, via different business units. Sustainalytics maintains measures designed to safeguard the objectivity and independence of its opinions. For more information visit Governance Documents or contact compliance@sustainalytics.com.