

Incyte - Where Should the Next R&D Dollar Go?

Internal ID: S&F-STR-305

Topic: Corporate Strategy, Growth Strategy, Operations Strategy

Industry: Biotechnology

Source: Strategy & Finance

Publication date: 5 October 2026

License: Not specified

Decision date and information cutoff: 13 February 2024, 11:59 p.m. ET

Decision scope: Hypothetical allocation of incremental portfolio resources

Case convention: This is an author-created strategy exercise. The choice and alternatives are hypothetical; company disclosures and reported results are historical. It does not represent private deliberations or a decision announced by Incyte.

A portfolio at an inflection point

Incyte had grown from a company built around hematology into a biopharmaceutical portfolio spanning hematology, oncology and dermatology. Its February 2024 year-end results showed \$3.696 billion in product and royalty revenue for 2023, up 14%. Of this, \$3.165 billion was net product revenue, up 15%. Jakafi, its largest product, generated \$2.59 billion of net product revenue, up 8%. Opzelura, its topical ruxolitinib cream, generated \$338 million, up 162%. These figures describe reported revenue, not profit, cash contribution or the return on future research and launch spending. [S1]

Management attributed Opzelura's growth to demand, refills and payer-coverage expansion. Those are the company's explanations; the release does not isolate the causal effect of each factor. Incyte also described an ambition to deliver more than ten high-impact launches by 2030. That is an aspiration, not a forecast supported by project-level probabilities. [S1]

The portfolio posed a resource-allocation question. Dermatology offered marketed growth and a set of related clinical programs. Hematology and oncology included established products and candidates at different stages. External licensing could add programs, but required both capital and development and commercial capacity. Incyte's fiscal 2023 research and development expense was \$1.628 billion, up from \$1.586 billion. The company did not disclose R&D spending by product or candidate. Selling, general and administrative expense was \$1.161 billion. At year-end, cash, cash equivalents and marketable securities totaled \$3.656 billion. These company-wide figures establish scale; they do not identify an uncommitted budget or show which asset earns the next dollar. [S2]

Three paths, different evidence states

Dermatology. Opzelura was approved in the United States and Europe for vitiligo and in the United States for atopic dermatitis (AD). It was also being studied in other conditions, including pediatric AD, prurigo nodularis, lichen planus, lichen sclerosus and hidradenitis suppurativa (HS). Incyte reported a Phase 2 HS study meeting its primary endpoint and said it was evaluating a Phase 3 study. Povorcitinib, an oral JAK1 inhibitor, was in Phase 3 trials for HS and vitiligo; the company planned a Phase 3 prurigo-nodularis trial after Phase 2 results and continued Phase 2 studies in asthma and chronic spontaneous urticaria. Trial status and company-reported topline results do not establish later approval, safety, adoption or commercial value. [S1, S2]

Hematology and oncology. Jakafi remained a substantial source of revenue. In its annual report, Incyte warned that a decline in Jakafi revenue could materially harm the business and constrain investment in other development, commercialization, licensing or acquisition initiatives. The company estimated that the earliest U.S. expiration in the ruxolitinib patent estate was 2028; separate U.S. cream-formulation patents were anticipated to expire in 2031 and AD/vitiligo treatment patents in 2040. These are company-disclosed patent estimates, subject to extensions and other conditions-not certain generic-entry dates. [S2]

Axatilimab, partnered with Syndax, had a biologics license application submitted for chronic graft-versus-host disease (cGVHD). Incyte said approval might occur in the second half of 2024. Tafasitamab (Monjuvi in the United States; Minjuvi in Europe) had an approved use in combination with other medicines for certain adults with relapsed or refractory diffuse large B-cell lymphoma. Additional indications described by Incyte were in Phase 3 trials, not established uses. [S1, S2]

On February 5, 2024, Incyte announced an agreement, effective immediately, giving it exclusive global development and commercialization rights to tafasitamab from MorphoSys for a \$25 million payment. Previously, the companies shared U.S. costs and profits. The new arrangement gave Incyte greater control and also made it responsible for worldwide development and commercialization. Incyte described expected operating efficiencies and cost synergies; those were forward-looking company statements, not demonstrated savings. [S3]

External sourcing. Incyte had used acquisitions and collaborations to add assets. For example, its 2022 agreement to acquire Villarix disclosed \$70 million upfront and potential milestone payments of up to \$1.36 billion. That historical deal showed a possible structure for external sourcing, but it did not establish terms or availability for any future asset. [S4]

A hypothetical decision

Assume Incyte's leadership asks you, on February 13, 2024, to recommend how to prioritize the next increment of portfolio resources. This is a teaching hypothetical. Public disclosures do not identify a specific incremental budget or show that management or the Board faced this exact choice.

Choose one direction:

1. **Scale dermatology.** Direct more incremental resources toward Opzelura's approved-market access and launch execution and toward the most promising related indications, including povorcitinib. The strategic case is to build on an emerging commercial franchise and related capabilities.

2. **Prioritize hematology and oncology.** Protect resources for late-stage development and launch preparation, including axatilimab and the now fully licensed tafasitamab portfolio, while sustaining the established base and addressing dependence on Jakafi.
3. **Preserve a balanced, staged portfolio.** Fund specific next milestones across both areas and reserve capacity for selective external opportunities. Set explicit continuation or stop points as clinical, regulatory, access and commercial evidence arrives.

These alternatives are not company-published plans. There is no public project-by-project cost, success probability, market forecast, contribution margin, launch budget or return estimate with which to calculate a numeric winner. A strong recommendation will state which evidence it would seek and what would change its choice.

What the research can-and cannot-tell you

Pharmaceutical R&D is a portfolio problem. Girotra, Terwiesch and Ulrich examined 132 Phase 3 failures at public pharmaceutical companies from 1994 to 2004; detailed pipeline information was available for 116. Their event study estimated an average firm-value decline of about \$405 million per failure. The estimated decline was smaller when firms had backup projects aimed at the same market or when similar projects competed for development resources. This is consistent with backup options and the ability to reallocate capacity. The sample concerns late-stage failures and stock-market reactions; it does not value Incyte's candidates or launch spending. [A1]

Rogers, Gupta and Maranas modeled staged pharmaceutical R&D with continuation and abandonment choices under technical, market and budget uncertainty. Their illustrative model selected among 20 candidate drugs over six years. It shows how the value of waiting for information can affect a portfolio, but it is a model, not observed company performance; its results depend on assumed probabilities, values and costs. [A2]

McGrath and Nerkar studied patents at 31 large U.S. pharmaceutical firms from 1979 to 1995. They used follow-on patenting as a proxy for further R&D commitment and found patterns consistent with firms entering new areas and later making follow-on investments as experience accumulated. Patenting is not clinical success, spending or product return, and the historical observational results do not rank Incyte's internal programs against a license or acquisition. [A3]

Use these studies to structure questions about shared resources, staged commitments, and exploration versus follow-on investment. Do not import their effect sizes or model outputs as Incyte forecasts.

Your assignment

Prepare a two-page memo to Incyte's hypothetical leadership team. Recommend one of the three directions and explain:

- Which programs or capabilities merit incremental attention, and why?
- What milestone evidence would justify continuing, expanding or stopping each commitment?
- How should Incyte weigh approved commercial products against clinical-stage possibilities and the added tafasitamab responsibilities?
- What information about access, resources, competition or external assets is missing?
- What evidence would cause you to change your recommendation?

Use only information available by February 13, 2024, 11:59 p.m. ET. Distinguish reported results from management explanations and aspirations, approved uses from investigational programs, and company-wide expenses from program-level economics. State assumptions. Do not treat any later event as known.

Sources

[S1] Incyte, “Incyte Reports Fourth Quarter and Year-End 2023 Financial Results and Provides Updates on Key Programs,” February 13, 2024, SEC Exhibit 99.1 to Form 8-K, accession 0000879169-24-000042. [Release](#). Product revenue, management commentary and pipeline status cited in text.

[S2] Incyte Corporation, Form 10-K for fiscal year ended December 31, 2023, filed February 13, 2024, SEC accession 0000879169-24-000045. [Filing](#). Business and pipeline, risk factors, patent terms, R&D expense and liquidity cited in text.

[S3] Incyte, “Incyte Gains Exclusive Global Development and Commercialization Rights to Tafasitamab (Monjuvi),” February 5, 2024. [Release](#).

[S4] Incyte, “Incyte Announces Agreement to Acquire Medicxi-Backed Villaris,” October 3, 2022. [Release](#).

[A1] Girotra, K., Terwiesch, C., & Ulrich, K. T. (2007). “Valuing R&D Projects in a Portfolio: Evidence from the Pharmaceutical Industry.” *Management Science*, 53(9), 1452-1466. [Full article](#). <https://doi.org/10.1287/mnsc.1070.0703>.

[A2] Rogers, M. J., Gupta, A., & Maranas, C. D. (2002). “Real options based analysis of optimal pharmaceutical research and development portfolios.” *Industrial & Engineering Chemistry Research*, 41(25), 6607-6620. [Full article](#). <https://doi.org/10.1021/ie020385p>.

[A3] McGrath, R. G., & Nerkar, A. (2004). “Real options reasoning and a new look at the R&D investment strategies of pharmaceutical firms.” *Strategic Management Journal*, 25, 1-21. [Full article](#). <https://doi.org/10.1002/smj.358>.