



Pfizer Update: COVID-19 Vaccine Development Demonstrates Competitive Advantages

Pfizer and BioNTech recently won the world's first regulatory approval for a COVID-19 vaccine. This event marks a key milestone in the fight against the coronavirus pandemic and is a laudable accomplishment for both companies. However, looking back, Pfizer's leading role in developing a COVID-19 vaccine was not expected.

Pfizer maintains a stable vaccine franchise, highlighted by a pneumococcal vaccine, Prevnar-13, but our investment thesis did not incorporate cutting-edge vaccine development. However, the agreement with BioNTech underscored a key, structural advantage benefiting Pfizer and a handful of other large, multinational pharmaceutical companies. Specifically, financial, distribution, and regulatory resources create meaningful barriers to entry relative to smaller competitors.

Key for Pfizer was a previous connection to BioNTech, based on a 2018 agreement related to flu vaccines. Specific to the coronavirus program, the initial collaboration announcement noted the partnership would be based on "pairing Pfizer's development, regulatory and commercial capabilities with BioNTech's mRNA vaccine technology and expertise." This implied BioNTech would create the vaccine while Pfizer would be responsible for clinical trial administration, global regulatory approvals, and distribution.

On the surface, this joint venture was puzzling. If BioNTech is responsible for creating the intellectual property associated with the vaccine, why would they share in the economics with Pfizer? The simple answer is that BioNTech possesses the scientific knowledge for rapid vaccine discovery but not for an expeditious deployment. Germany-based BioNTech is a relatively small company focused primarily on cancer immunotherapy research and therefore lacks the resources, proficiency, or regulatory relationships to quickly bring a vaccine to market on a global scale.

Covid-19 Vaccine Press Release:

"The collaboration aims to rapidly advance multiple COVID-19 vaccine candidates into human clinical testing based on BioNTech's proprietary mRNA vaccine platforms, with the objective of ensuring rapid worldwide access to the vaccine, if approved. The collaboration will leverage Pfizer's broad expertise in vaccine research and development, regulatory capabilities, and global manufacturing and distribution network."¹

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¹ For April 09, 2020 Press Release: "Pfizer and Biontech announce further details on collaboration to accelerate global Covid-19 vaccine development." Click [here](#)



The long-term financial implications of coronavirus vaccine sales to Pfizer are unclear. We expect Pfizer to recoup a portion of its investment via a profit-sharing arrangement on vaccine sales. And, as part of the agreement, Pfizer purchased an equity stake in BioNTech and can therefore indirectly benefit from BioNTech's financial success. However, due to pricing uncertainties, we do not explicitly assume any economic benefit from the vaccine program in our Pfizer valuation model.

Nevertheless, we believe the effort is an excellent example of Pfizer's reinvigorated commitment to science and drug development under new executive leadership. The COVID-19 vaccine approval follows recent steps aimed at narrowing the company's strategic focus towards science-driven, innovative drug discovery with the aim of bolstering long-term growth prospects. Other recent developments include the spin-offs of its consumer products division in 2019 and the off-patent pharmaceutical business in 2020. We view both these transactions as accretive to business value creation and our long-term investment view.

We reinitiated a position in Pfizer shares in the Jensen Quality Growth Strategy in 2018 based on confidence in the company's diverse pharmaceutical portfolio and an underappreciated drug pipeline. This view is largely unchanged, but we believe the investment case is now stronger.

The company continues to benefit from competitive advantages in the form of intellectual property protection on individual drugs. Examples of these "inline" pharmaceuticals include Ibrance (breast cancer), Eliquis (blood anticoagulant), Xeljanz (autoimmune disorders), and the aforementioned vaccine franchise. Importantly, top-line growth is poised to accelerate next year due to continued strength in established drug franchises and a wave of drug pipeline approvals.

Pfizer's willingness to lend scientific and logistical expertise towards solving a global healthcare crisis is commendable and indicative of a high-quality business. The company remains a core holding in both the Jensen

Quality Growth and the Jensen Global Quality Growth Strategies, based on its durable competitive advantages, strong financials, and an improving growth outlook.

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