Evaluate Vantage

January 29, 2020

New Pfizer, same problem

Amy Brown

Pfizer’s chief executive has pledged to throw money at the pharma giant’s thin pipeline and shirk financial engineering, but only canny deal-making will keep investors on side.

Since taking the reins at Pfizer at the beginning of 2019 Albert Bourla has overseen the demergers of the company’s consumer healthcare division and its established medicines business. At yesterday’s annual results the chief executive distanced the pharma giant from another “old Pfizer” trope.

Mr Bourla ruled out acquisitions “with cost synergies as the main driver”, which essentially suggests that megamergers are off the table. “The past was a very different Pfizer… and we had to deal with constantly declining revenues. We did what we had to do, even if it was financial engineering,” he said.

Capital will be directed at the pipeline instead, he pledged: after spending $9bn on share repurchases in 2019 no buybacks are planned for this year to “preserve firepower” for deal-making. Investors should expect evidence of deployment in the coming months, Mr Bourla said.

In Pfizer’s sights are phase II or phase III-ready assets that will mitigate the company’s next round of painful patent expiries, which commence in and around 2027. This apparent hoarding of capital will have many suspecting that the company is planning a larger-than-typical bolt-on deal, though of course these close-to-market projects will not come cheap.

It is also true that it is far harder to drive earnings growth via the successful development of valuable new drugs than by using cash to buy back stock. This is exactly why many large drug makers have come to rely on this form of financial engineering, so disparaged by Mr Bourla, to keep investors happy (*Biotech's big-bucks buybacks begin to burn, November 9, 2018*).

Spending the money wisely will be the hard part. A 5% drop in Pfizer's shares yesterday suggests that shareholders are not entirely on board, and Mr Bourla will quickly come under pressure to revert to former tactics if business development fails to pan out.

A pipeline problem? Pfizer's growth prospects			
	Annual sales ($bn)		
	2020e	**2022e**	**2024e**
Marketed*	47.5	52.4	57.5
R&D	0.0	0.2	0.7
Total	47.5	52.6	58.2
**Includes royalties and alliance revenues. Source: EvaluatePharma.*			

Mr Bourla argues that the shedding of legacy products has left Pfizer with a competitive growth profile among its big pharma peers, which might be true, but these prospects are largely being driven by drugs already on the market. Yesterday's annual results presentation talked up what pipeline progress to expect this year, but in reality this just highlighted how little there is to speak about.

The company's gene therapy projects are a major interest, though largely for investors in smaller players that are either competing or collaborating with the pharma giant. There are real doubts about whether Pfizer has a leading position with any of its candidates – the sellside has yet to pencil in numbers – and it will be revealing if Mr Bourla directs some of his firepower at new projects or technologies.

A pledge to put a new gene therapy project in the clinic "every year or so" was made yesterday, though other updates here were limited to vague timeline commitments. New data on Pfizer's Duchenne muscular dystrophy therapy PF-06939926 could be announced at an investor day on March 31, executives hinted, advising interested parties to "take a front-row seat".

The company also flagged abrocitinib, which according to sellside consensus forecasts is Pfizer's biggest pipeline hope. Much depends on the approaching Jade Compare study, which pits the project against Dupixent in atopic dermatitis; if this disappoints the company's need for fresh blood will be laid bare.

The absence of sales forecasts for the R&D projects highlighted yesterday shows that they have much still to prove. More important, commercially speaking, will be updates this year on some of Pfizer's already marketed drugs.

The Ibrance readouts have been delayed slightly, which is perhaps a worry, but the studies could double the addressable patients for the blockbuster breast cancer pill. The Anchor study meanwhile could move Pfizer's newly acquired Braftovi/Mektovi combination into a more valuable front-line setting in certain colorectal cancer patients.

This all underlines exactly why cash is being earmarked for M&A this year. Pfizer has repositioned itself as newly focused innovator, but the readouts flagged yesterday presumably represent the biggest news the existing pipeline is capable of generating over the next 12 months. Mr Bourla had better get spending.

In the spotlight for 2020, according to Pfizer		
Product	**Update**	**2024e sales ($m)**
Marketed product updates		
Ibrance (CDK4/6 inhibitor)	Penelope-B and Pallas studies due to report late 2020 and early 2021 respectively.	9,566
Braftovi/Mektovi (Braf/Mek inhibitor)	Anchor-CRC in 1st-line colorectal cancer due H2 2020	1,492
R&D updates		
Immunokinases		
Abrocitinib (Jak1 inhibitor)	Jade Compare trial, vs Dupixent, due H1 2020; filings due by YE.	446
PF-06700841 (brepocitinib, Tyk2 and Jak1 inhibitor)	Oral product, POC data due 2020 in three settings	27
PF-06826647 (Tyk2 inhibitor)	Oral product, POC data due in psoriasis in 2020	-
PF-06651600 (Jak3/TEC inhibitor)	Oral product, POC data due in vitiligo in 2020	-
Gene therapies		
SB-525** (haemophilia A)	Phase III start possible H2 2020	-
PF-06939926 (DMD)	POC data due in H1 2020; phase III planned H2 2020	-
Vaccines		
PF-06928316 (universal maternal RSV vaccine)	POC data due Q2 2020; phase III start shortly after	-
PF-06482077 (20-valent pneumococcal vaccine)	BLA submission by YE 2020	-

**Partnered with Spark/Roche. **Partnered with Sangamo. POC=proof of concept. Source: company presentation & EvaluatePharma.*