

Biopharma Breakthrough: Examining Pfizer's Strategic Seagen Acquisition

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16th January, 2024

"The completion of all regulatory reviews in association with the Seagen acquisition supports our belief that this transaction is good for patients in the battle against cancer." – Dr. Albert Bourla, Chairman and CEO of Pfizer

Deal Overview

- Acquirer: Pfizer Inc.
- Target: Seagen Inc.
- Industry: Pharmaceutical/Biotechnology
- Transaction amount: \$43B (\$229 per share)
- Date of announcement: 13th March, 2023
- Advisor to Pfizer: Guggenheim Securities LLC
- Advisor to Seagen: Centerview Partners LLC

Deal Summary

On March 13th, 2023, Pfizer announced its intention to acquire Seagen, offering a cash consideration of \$229 per share, which amounted to an enterprise value of approximately \$43 billion. This transaction was promptly approved by the board of directors of both companies. The completion of this deal, as confirmed on December 14th, 2023, has positioned Pfizer as a leading company in oncology. Being a pharmaceutical giant, Pfizer has a history of executing billion-dollar transactions, including the

acquisition of Warner-Lambert in 2000 for nearly \$100 billion, which remains the largest deal in the pharmaceutical industry to date. Pfizer's recent focus has been on enhancing its cancer-fighting capabilities. This goal has been furthered by the acquisition of Seagen, with both companies aiming to accelerate the development of innovative cancer treatments through their combined expertise and resources.

Pfizer Oncology already boasts an industry-leading portfolio of 24 approved cancer medicines, generating \$12.1 billion in revenues in 2022. This portfolio includes leading treatments for metastatic breast cancer and prostate cancer. With Seagen's specialized medicines for bladder, cervical, and colorectal cancers, the acquisition enables Pfizer to potentially double its early-stage oncology clinical pipeline.

The Seagen acquisition is anticipated to significantly contribute to Pfizer's profitability. Seagen is expected to show robust growth in the coming years. Based on recent projections, Seagen could add more than \$10 billion in risk-adjusted revenues by 2030, aiding Pfizer in achieving its long-term financial objectives. The transaction, as per the latest update, was successfully completed in late 2023.

Company Overview – Pfizer Inc.

Pfizer Inc. is an American multinational pharmaceutical and biotechnology corporation incorporated in Delaware and headquartered in Manhattan, New York City. As of now, the company operates worldwide and has approximately 83,000 employees. Originally, Pfizer was founded in 1849 by two German entrepreneurs, Charles Pfizer and his cousin Charles F. Erhart. During this time, the business produced chemical compounds. These products were an immediate success, although it was the production of citric acid that led to Pfizer's growth in the 1880s.

The company has grown steadily over the past decades through different innovations and various acquisitions that contributed to its value. This

development did not come without its scandals, as the entity was previously accused of illegal marketing for a significant number of its products, often leading to major investigations into the corporation's code of conduct. Still, the company has also received a considerable amount of positive press due to its efforts in reducing greenhouse gas emissions and notably being a leading company in this area.

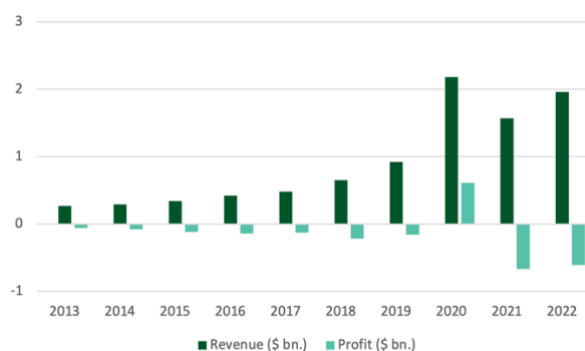
Currently, Pfizer develops and produces numerous medicines and vaccines for different areas such as immunology, oncology, and neurology. The company's largest product by sales is the Pfizer-BioNTech COVID-19 vaccine, accounting for nearly \$40 billion in sales. This release has also been received critically by several parties, with its share price dropping due to negative perceptions and the decline in the sales of this product throughout 2022 and 2023.

The release of the COVID-19 vaccine significantly boosted Pfizer's sales, with revenues soaring from approximately \$40 billion in 2020 to over \$100 billion by 2022, marking a substantial increase. Despite these robust revenue figures, the share price has experienced a notable decline over the past few years, dropping from nearly \$60 in late 2021 to around \$30 currently. This decline in share value has impacted Pfizer's market capitalization, which now stands at approximately \$173 billion. According to various financial experts, Pfizer is potentially undervalued given recent developments in the stock market.

Company Overview – Seagen Inc.

Seagen Inc. is an American biotechnology company focused on developing and producing innovative monoclonal antibody-based therapies for the treatment of cancer. The entity was initially founded as Seattle Genetics in 1997 by Henry Perry Fell Jr. and Clay Siegall and has since been headquartered in a suburb of Seattle. The company already completed its IPO in 2001, achieving steady growth in the past 10 years and having approximately 3000 employees as of now.

Figure 1: Seagen's Historical Revenues



Source: Refinitiv Eikon

The company is the industry leader in antibody-drug conjugates (ADCs), a technology designed to harness the targeting ability of monoclonal antibodies to deliver cell-killing agents directly to cancer cells. Thus, the company's products are highly regarded with respect to battling cancer, this also being the primary reason why Pfizer has decided to purchase Seagen. The company's flagship product, Adcetris, is commercially available in more than 65 countries, comprising the majority of the company's revenues. Although Seagen's cancer treatment technology has allowed the company to reach strong growth in the stock market, its revenues are still relatively small compared to other pharmaceutical giants, whilst its net income has mostly been negative since the company's founding. Nonetheless, the price per share of Seagen is around \$215 and its market capitalization has recently reached \$40 billion, with pronounced appreciation since the announcement of its sale to Pfizer.

Industry Overview – Pharmaceuticals

The pharmaceutical industry is responsible for the research, development, production, and distribution of medications. These medications are then administered to patients with the aim of curing and preventing

diseases or alleviating symptoms. The pharmaceutical industry is highly dependent on research and development, with companies investing around 20 percent or more of their sales revenues in R&D projects.

The market has experienced significant growth during the past two decades, and pharma revenues worldwide totaled 1.48 trillion U.S. dollars in 2022. The pharma industry is comprised of some major multinational companies. Pfizer has been the market leader in the pharmaceutical industry for many years, with the company growing continuously due to innovative products and several key acquisitions.

Key competitors to Pfizer include Johnson & Johnson, Merck & Co., and AbbVie. As many of the leading pharma companies are based in the United States, the country also has the largest national pharmaceutical market worldwide. Although the United States and Europe will certainly remain dominant within the industry in the near future, emerging economies like the ones of Brazil and China have growing pharmaceutical industries as well.

Pharmaceutical companies have always had a significant importance in the business world. Nonetheless, the COVID-19 pandemic showed the world how particularly important vaccines and new therapies can be, with many of these pharma companies coming into the public's focus during this period. This was especially true for the global leaders of the vaccine market, such as Pfizer and Johnson & Johnson. Pfizer's most-sold product since its founding was the COVID-19 vaccine, it being a key innovation.

Comparable Company Analysis

Comparing the value of Seagen Inc. with the value of other enterprises in the pharmaceutical industry shows a strong discrepancy (see figure 2 on p. 3). Comparable companies were picked on the basis of operating in the pharmaceutical industry and having similar financials to some extent. As Seagen has not realized any positive EBITDA values in the previous

years, the valuation metric enterprise value / revenue serves as a more optimal metric for comparing Seagen with comparable companies from the pharmaceutical industry. The median EV/revenue calculated from the comparable companies analyzed is 4.39x. Applying this low multiple to Seagen's revenue reveals major discrepancies as the company still has a small turnover, despite its innovative products in the area of oncology. With the median EV/revenue multiple from the comparable companies, Seagen Inc. would have an implied value of \$75.85 per share, leading to an enterprise value of \$12.53 billion. Thus, on the basis of this comparable company analysis, Seagen is notably overvalued. A contributing factor to this difference in valuation is the strong growth potential that Pfizer will most likely profit from in the years following the acquisition. The strong increase in Seagen's share price in previous years is a further reason why Pfizer has decided to pay a high price for the enterprise.

Potential Risks & Upsides

With the successful completion of Pfizer's acquisition of Seagen, the pharmaceutical giant has significantly expanded its market share, particularly in oncology and cancer treatments. This expansion, which enhances Pfizer's product offerings, is expected to contribute to the company's growth in market capitalization.

For the transaction to materialize, it required approval from regulatory authorities across various states and territories. Pfizer achieved a major milestone on October 19th, 2023, by obtaining unconditional EU antitrust approval for the \$43 billion acquisition. The EU authorities concluded that the deal would not adversely affect market competition within the 27 EU states. Such approvals often hinge on demonstrating minimal customer overlap between the two entities, thereby ensuring no significant impact on market competition. With the necessary approvals obtained in other territories, Pfizer was able to successfully

close the acquisition by providing comprehensive information and justifying the rationale behind the deal.

Several compelling reasons underpinned Pfizer's decision to acquire Seagen. Since its inception in the 1990s, Seagen has consistently advanced its cancer treatment technology, making it a highly valuable entity in the sector. Previously, Seagen had engaged in negotiations with Merck & Co. regarding a potential sale at a similar price point, but the deal did not materialize as Merck & Co. was unwilling to meet the asking price. Therefore, it was unlikely that Pfizer could have acquired Seagen at a lower price. Acknowledging Seagen's innovative product line, Pfizer paid a significant control premium to secure the acquisition.

Pfizer anticipates that this acquisition will enable it to replicate its COVID-19 success in the field of cancer, an area that has become a strategic priority. With the completion of the transaction, Seagen's products are poised for greater potential, backed by Pfizer's robust financial resources.

Furthermore, in the wake of declining COVID-19 vaccine sales following the end of the pandemic, Pfizer faces pressure to identify products with strong sales potential. The company believes that the acquisition will create efficient cost synergies and drive strong sales across multiple territories and channels. This strategic move is seen as a key step for Pfizer to rebound from the recent downturn in its stock market performance.

Figure 2: Comparable Company Analysis | Seagen

Company Name	Market Data (24.02.2023)			Financial Data (NTM)		Valuation
	Share Price (\$/Share)	EQV (\$bn)	EV (\$bn)	Revenues (\$bn)	EBITDA (\$bn)	EV/Revenue
Seagen Inc.	161.37	30.14	28.41	3.25	-0.34	8.74x
Biogen Inc.	270.02	39.01	44.56	9.71	3.77	4.59x
Gilead Sciences Inc.	80.66	100.58	115.99	27.67	13.25	4.19x
Edward Lifesciences Corp.	76.25	46.38	45.13	6.48	2.1	6.96x
Moderna Inc.	139.26	53.5	48.47	4.48	-2.83	10.82x
BioNTech SE	133.31	32.35	11.27	3.91	0.54	2.88x
Cencora Inc.	158.57	31.46	33.66	288.36	4.18	0.12x
High						10.82x
75th Percentile						6.37
Average						4.93x
Median						4.39x
25th Percentile						2.19
Low						0.12x
Seagen Inc. (implied value)	75.85	14.27	12.53			4.39x
Seagen Inc. (offer price)	229.00	-	43.00			

Source: Refinitiv Eikon & Yahoo Finance