
Miemietz, Marietta / CFA Institute – The Pharmaceutical Industry

CFA Institute, 2013, [Equity Investing] Grade ★★ ★

Together with the CFA Institute Belgian financial analyst and consultant Marietta Miemietz delivers a knowledgeable but quite short first introduction into the art of analyzing pharmaceutical companies. This sub-50 page booklet first explores the industry basics in the introduction and a chapter each on the lengthy drug development and on the protection of intellectual property. Then the investment and business topics take over with chapters covering business models, financial analysis and pharmaceutical company valuation.

Skillful bottom-up investing is hard work. There are several skills and competences needed and knowledge of a number of areas required. There is a vast amount of investment literature but also business literature that can aid an investor in gaining required understanding. One of the required sets of knowledge is the understanding of the industries in which investments are made. Still, there are surprisingly few publications that attempt to give a broad overview over the full set of industries represented by the companies on listed exchanges. There are books covering industries but they often focus on the most spectacular ones and often they also push an opinion like anti-Big Oil books or books that argue for or against Big Tech. From what I know Fisher Investments is the only firm that has published a series of books to help investors to understand the full range of sectors from an analytical point of view. The CFA Institute should be well placed to do the same and this book is one in a series of such introductions. Still, there are so far few books published in the series and it is unclear if there is an ambition to issue a comprehensive set of texts.

Most large companies sustain a collection of current commercial products that at some future point in time will be phased out, plus a pipeline of future product candidates that hopefully will take the place of the existing ones. This portfolio approach is however seldom as obviously important as with pharmaceutical companies. The long lead-times in developing a drug, the

Mats Larsson, April 8, 2018

unpredictable ebb and flow of blockbuster drug sales, the patent cliffs and looming danger of competition from generics (and more recently biosimilars) make the pharmaceutical industry an unusual place.

Because of this the author's opinion is that it is critical to build bottom-up models of each drug and drug candidate that a company has. Even though I probably agree that it has to be done by some, I'm not sure if there is much edge in doing it – even corporate insiders usually have a very hard time estimating the future commercial success of prospective drug candidates. Large companies with broad diversified drug portfolios will at times experience relative headwinds compared to their competitors due to low R&D-productivity or others breaking into their markets with novel treatments. Still, these headwinds generally will shift into tailwinds. For the long-term investor it should be a good strategy to buy diversified companies in times of investor pessimism and then wait for the reversal of fortunes. I also think it is a strategy well worth perusing to bet on the better R&D-productivity of the smaller company. Hence, all else alike a portfolio of 15 companies with 1 drug candidate each will probably yield more success than investing in one company with 15 drug candidates.

Miemietz has produced a well-crafted text. Even though the booklet is short the novice investor in the pharmaceutical industry will come away better prepared after reading *The Pharmaceutical Industry*. For a higher-grade rating a more thorough coverage would have been needed – the writing on intellectual property is for example very summary. The text could also have benefited from including more illustrations, partly for enhanced understanding but also to simply make the text less dense.

Books like these are well needed. If the CFA Institute upped their ambition for the texts just a bit this series would fill a void for many investors.