

# ClearBridge

## Investments

## ESG Investment Program



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### Key Takeaways

- ▶ Companies held by ClearBridge across sectors are playing a significant role in the vaccine rollout, striking a delicate balance between supporting stakeholders and delivering to shareholders.
- ▶ The enormous task of getting a vaccine into the arms of millions — globally, billions — of people requires a major mobilization through health care providers.
- ▶ Diagnostics firms have demonstrated their value by putting the right instruments and equipment in place in labs, as testing was key, especially in early stages of the pandemic.

### Public Companies Taking Lead in Vaccine Rollout

The COVID-19 pandemic has forced companies large and small to adapt in order to safely serve customers, care for employees and in some cases, just stay afloat. Businesses have also been central to another key development, as the online maps millions used to check the spread of the virus in the spring of 2020 now show the rollout of vaccines. Innovation and adaptation by public companies spanning several industries are bringing vaccines to a world in need through a real-time mobilization for which there is no easy comparison.

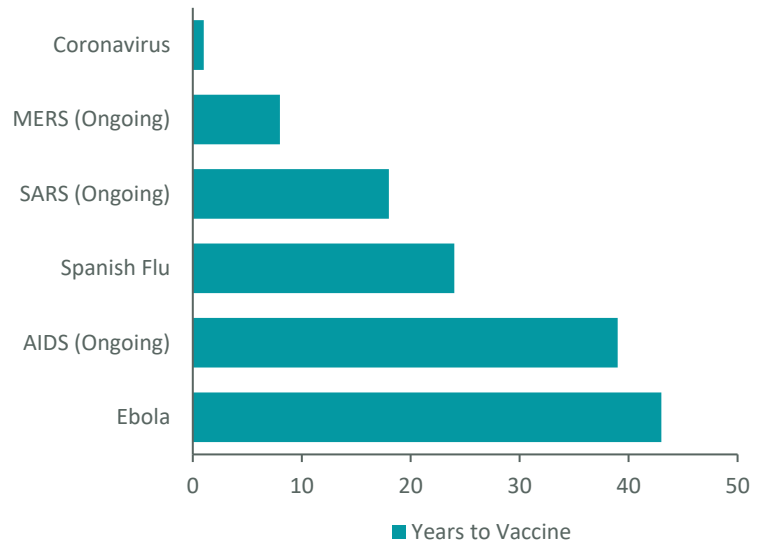
Companies held by ClearBridge across sectors are playing a significant role in the vaccine rollout, striking a delicate balance between supporting stakeholders and delivering to shareholders. In some cases, the ability to effectively distribute the vaccines has been made possible by improved business models. For others facilitating vaccinations is simply the right thing to do, as solving the pandemic is the best way for all companies, as well as their employees and customers, to thrive.

### Vaccines a Reminder of Innovation in Health Care

The swiftness of development and the efficacy of the two initial vaccines, by Pfizer/BioNTech and Moderna, reflect how the health care industry's drive to innovate treatments and cures has made meaningful advances not only for rare and genetic diseases, but also for infectious diseases. BioNTech and Moderna effectively developed a brand-new platform from first infection to market in under a year, an achievement that stands out among vaccine efforts

in other pandemics (Exhibit 1). Going forward, the technology could also be valuable for other infectious diseases as well as oncology.

Exhibit 1: COVID-19 Vaccines Represent Remarkable Achievement



Source: ClearBridge Investments. (Ebola: 1976–2019; AIDS: 1981–present; Spanish flu: 1918–1942; SARS: 2002–present; MERS: 2012–present).

More broadly, the vaccines, as well as the life-saving advances in treatment for symptoms of the virus, serve as a poignant reminder that the health care industry has the capability and the responsibility to use its resources to improve the welfare of society at large.

While governments have rightly supported the development of vaccines, companies with the financial resources have also taken substantial economic risk on their own. Pfizer, for example, has invested several billion dollars in its partnership with BioNTech, including manufacturing its vaccine before being certain it would work.

### Distribution Is a Logistical Challenge

Vaccine mobilization also requires a vast and efficiently operating delivery network. Logistics companies such as FedEx and long-time ClearBridge holding United Parcel Service (UPS) have been working very closely with health care companies and health agencies on coordinating the distribution of vaccines. Shipping vaccines entails GPS tracking, special labels and first-loaded status on planes and trucks, as well as ensuring precise temperature conditions. While parcel delivery capacity has been extremely tight in 2020 with significant shifts by consumers towards online shopping, FedEx and UPS have prioritized the national health effort by reserving meaningful capacity for distribution of the vaccine. UPS has gone so far as to publicly state it prioritized vaccine distribution ahead of holiday shipments, a typically critical set of volume for the company.

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UPS is also focused on serving small and medium-size businesses (SMB), which have been especially challenged by the pandemic in 2020. These efforts include increasing speed of delivery service, which helps make SMBs more competitive, creating 1,500 more UPS Access Point locations — partnerships with independent retailers such as hardware and grocery stores that drive traffic for smaller businesses and expand service to underserved areas — and adding visibility and tracking solutions designed for SMBs.

### **Health Care Providers Reaching the Masses**

The enormous task of getting a vaccine into the arms of millions — globally, billions — of people requires a major mobilization through health care providers. ClearBridge holding CVS Health has been on the front lines in testing, performing six million COVID-19 tests so far and expecting to continue at 70,000 or more per day. It will also be pivotal in delivering the vaccines, initially through its contract to administer vaccines to nursing home patients, and as part of a broader national campaign. CVS has infrastructure in place to distribute and administer vaccines that require regular or ultra-low temperatures.

In addition to helping end the pandemic, being central to distributing the vaccine should be a positive for business and represents a key moment in CVS's growth as a company. While the monetary incentive for distributing the vaccine is modest, roughly as profitable as a regular prescription, the company's ability to do so reflects a changing mindset in the health care services sector.

In our conversations with CVS over the years, ClearBridge has been an advocate for a repositioning of its business model from a dispensary model to a service model, and CVS has begun the transition down this path. Its recent naming of Karen Lynch as its next CEO — Lynch comes from the ranks of its recently acquired Aetna business, rather than the retail or pharmacy benefits manager businesses — is indicative of this shift. ClearBridge has long supported the business case for this shift, largely because of the overall societal benefit we believe it would involve, as the company's retail assets, directly connected to patients, could help get health care out of more expensive settings. A CVS store-based service model offers patients better convenience, encouraging better health care compliance and ultimately lower costs.

CVS sees its efficiently performing COVID-19 tests as an important proof point that Americans will seek health care services at its retail locations. Its role in the vaccine distribution further demonstrates the benefits of a customer-focused business model. With roughly 10,000 locations in the U.S., the company is in a unique position to quickly bring the vaccine to the population. CVS also has the infrastructure in place to track

recipients and provide reporting to health authorities. Both Pfizer/BioNTech and Moderna vaccines require a critical second dose for much of their effectiveness, and CVS's systems can help execute these crucial follow-up immunizations.

Health care equipment companies are also stepping up to ensure a successful vaccine rollout. ClearBridge holding Becton Dickinson, for example, has estimated the opportunity for needles for vaccination to be \$100–\$150 million, although at below-corporate-average margins. The company is working with the U.S. government, as well as investing on its own, to expand domestic needle manufacturing capacity so that there is additional capacity in the U.S. for both business growth and future surges.

### **Testing Has Also Been a Triumph**

COVID-19 testing has been a crucial component in controlling the virus. Becton Dickinson has also been a large supplier of COVID-19 diagnostic tests, both PCR and rapid antigen tests. Diagnostics firms such as ClearBridge holdings Danaher, Thermo Scientific and Hologic have also demonstrated their value by putting the right instruments and equipment in place in labs, as testing was key especially in early stages of the pandemic. Investments in testing equipment, instruments and consumables (such as the reagents used to perform tests) may also yield longer-term benefits even after COVID-19 has been contained, increasing preparedness for other threats down the road. Although the magnitude and benefits of this for diagnostics firms is unclear, it is likely there will be a higher baseline testing level for infectious diseases going forward, a tailwind for diagnostics companies and a positive for the public.

### **All Will Benefit**

As the vaccine rollout develops, we are optimistic for a reduction in infection and death rates, but also reductions in unemployment as pandemic-related restrictions can be rolled back. The breadth of the dimensions involved for vaccine distribution, reopenings and implementation oversight will mean it will take some time. But the effect of public companies prioritizing stakeholders by helping the vaccines reach all corners of the country will be a tangible improvement in societal well-being, and even those who are not owners of these equities will greatly benefit.

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