

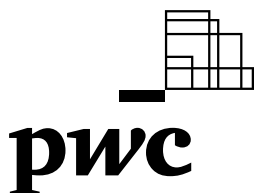


ESG for pharmaceutical and life sciences companies

What's right for the world is good for business

Pharmaceutical and life sciences companies have historically embraced the social pillar of environmental, social and governance (ESG) efforts, creating medications, vaccines and devices that improve human health and save lives. PwC's Health Research Institute (HRI) analyzed the ESG efforts of 32 pharmaceutical and life sciences companies and found the sector could reap additional rewards from also embedding more of an environmental and governance focus into their overall strategy.

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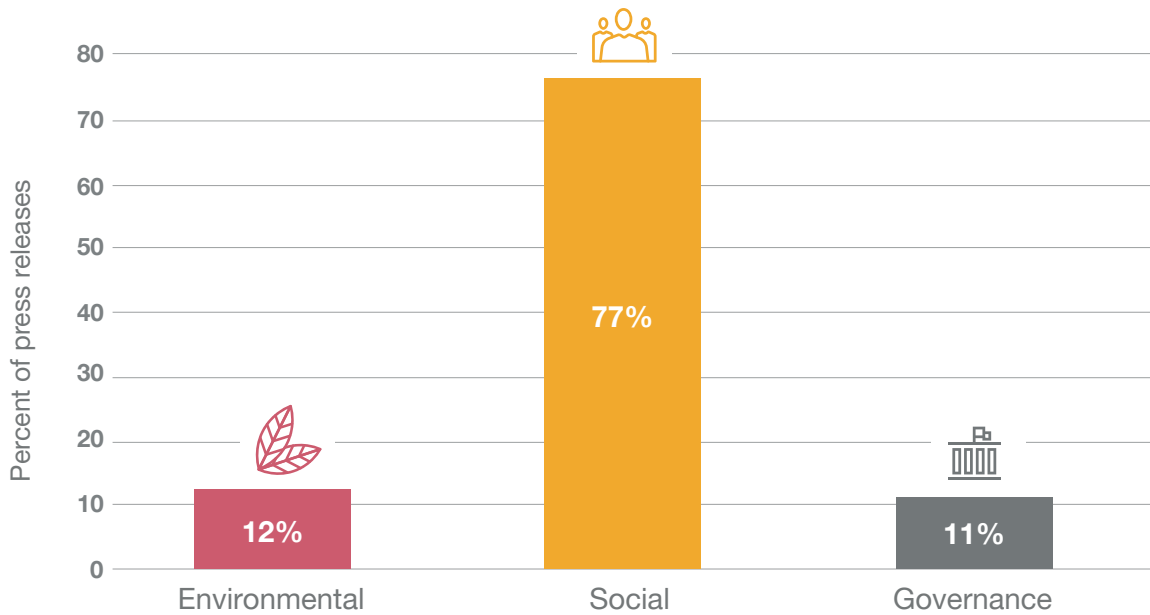
One clear indication of those opportunities: HRI found that between Jan. 1, 2020, and April 15, 2021, 77% of press releases from the companies analyzed touched on social-related priorities. A smaller share was split between environmental and governance initiatives, highlighting the opportunity to advance ESG (see Figure 1).

And this may be the ideal time to embrace a broader ESG strategy. Government bodies, regulators, investors and consumers have increased expectations for responsible business practices.¹ The Biden administration is setting goals for a net-zero emissions economy by 2050, signaling pressure to measure, disclose and improve on ESG strategies reflecting businesses' societal impact.² Institutional and ESG investors are asking questions about

companies' ESG profiles with external groups assigning weighting to different pillars by sector.³ Some regulators outside the US have incorporated elements of ESG into mandatory reporting, while the chairman of the US Securities and Exchange Commission told Congress in May that the agency is seeking to propose rules around ESG disclosures for public companies.⁴

Among US consumers, 62% surveyed by HRI in late 2020 said they would view an organization more positively if it were taking action to address social determinants of health, which make up some social pillar initiatives.⁵ Younger people were more swayed by these actions, with 70% of respondents ages 18 to 34 saying they would have a positive impression, compared with 54% for those 65 and older.

Figure 1: Social pillar is focus for pharmaceutical and life sciences companies since January 2020



Source: PwC's Health Research Institute analysis of 32 companies' websites and 90 total press releases

These initiatives should not be viewed as a public relations endeavor or a reporting exercise. ESG principles should be embedded throughout a business through an actionable plan, as a company's ESG performance can be a good indicator of future success. Thorough ESG plans also can create a cost advantage when sustainability measures are embedded into product development, such as through green chemistry (see Figure 2).

More than half of health leaders responding to PwC's US Pulse Survey of C-Suite executives in March 2021 said they expected to increase diversity and inclusion training (58%) and reporting (52%) in the next 12 months.⁸ Forty percent said their organizations would increase the diversity of their board members. The executives were less committed to changes around environmental reporting; 8% of respondents said they planned to disclose a strategy for a transition to a net-zero business model. Across all industries surveyed by PwC, 19% of executives said the same.⁶

Figure 2: ESG efforts by pharmaceutical & life sciences companies

HRI's review of the ESG reports (e.g. Corporate Social Responsibility reports, company websites) of 32 pharmaceutical and life sciences companies provides a look at some steps being taken by the sector to advance their ESG programs.



Source: PwC's Health Research Institute's review of 32 pharmaceutical and life sciences companies' ESG reporting (e.g. Corporate Social Responsibility reports, company websites, Sustainability reports, press releases)

A major consideration for pharmaceutical and life sciences companies is funding for ESG initiatives. In March 2020, Pfizer completed a \$1.25 billion bond to support its environmental sustainability and social impact programs.⁷ Some of the bond proceeds have already been allocated to initiatives aimed at protecting women in developing nations with reproductive health products, creating funding mechanisms for new R&D on microbial resistance, and improving infrastructure in underserved populations with grants from the Pfizer Foundation, the company

noted in its 2020 ESG report. Another pharmaceutical company pursued a €1.85 billion sustainability-linked bond tied to its ESG targets. Bondholders can receive more interest if the company does not meet targets for expanding access to its medicines or responding to other global health challenges it has identified.⁸

So what steps are pharmaceutical and life sciences companies taking on ESG? HRI found numerous examples of steps organizations are taking to grow their ESG programs.



Environmental: Abundant potential

HRI's analysis of corporate sustainability reports from 32 pharmaceutical and life sciences companies found that nearly all are reporting CO₂ emissions and setting targets for when they expect to be carbon neutral. The environmental pillar offers further opportunity for pharmaceutical and life sciences companies to make strides toward aligning ESG with many manufacturers' business strategies.

Alnylam Pharmaceuticals issued its first corporate responsibility report in March.⁹ The biotech company manufactures and markets three drugs to treat orphan diseases. The first was approved in 2018, the others last year.¹⁰ Alnylam has other late-stage programs that could be launched in the next few years.¹¹

With production expected to ramp up at two of its manufacturing facilities and new laboratory space coming online, Alnylam will use 2022 to create a baseline from which to study normal operations, according to its March report.¹² "This will help us better inform responsible future energy usage, track emissions, and set targets," the report said.

Additionally, pharmaceutical production is a water-intensive process, creating an opportunity for companies to consider innovations aimed at reducing water usage and waste to shrink their carbon footprints.

One potential solution is continuous manufacturing, whereby material is funneled nonstop entirely within one facility, rather than sporadically stopping or piecemealing the process among multiple locations.¹³ This modernized manufacturing increases efficiency, reduces the defect rate, creates flexibility, and allows for indefinite production, which may reduce the chance of drug shortages.¹⁴

In 2014, Amgen opened a \$200 million biomanufacturing facility incorporating a continuous purification system and a smaller footprint that enabled it to reduce energy consumption by 73% and water consumption by 54% from a typical facility.¹⁵

Amgen has shown that these and other steps, such as the adoption of green chemistry practices, have resulted in a reduction in solvent use by 71% during the development life cycle, an increase in throughput, and about 40% less operating time.¹⁶ As a result, the company saved \$250 million in operating costs from 2008 to 2020.¹⁷

The benefits of continuous manufacturing reach beyond biologics. Adopting the practice for active pharmaceutical ingredients (APIs) production could allow for more consistency in materials and downstream production.¹⁸ Higher quality API and continuous processing can reduce downstream waste by up to 60%.¹⁹

Pharmaceutical and life sciences companies also could take a page from the automotive industry, which is reusing materials from old or discarded products to produce new ones.²⁰

One health industry example is Cardinal Health's Sustainable Technologies business, which provides single-use medical device collections, reprocessing and recycling services.²¹ Cardinal cleans, tests and disinfects used devices—including electrocardiogram wires, pressure infuser bags and pulse oximeter sensors—for resale to hospitals.²² In FY 2019, the multinational healthcare company reported that the program had extended the life of 16 million devices and diverted more than 324,000 pounds of single-use devices from landfills.²³

For distributors, HRI's analysis of corporate sustainability and responsibility reports found that many environmental efforts are focused on fuel efficiency and route optimization to mitigate the environmental impact of transportation. In addition, companies such as AmerisourceBergen are exploring the use of drone technology to reduce their environmental emissions. AmerisourceBergen has partnered with UPS to identify opportunities to deploy company drones for transporting pharmaceuticals, supplies and records to US medical campuses.²⁴



Social: Taking action

For pharmaceutical companies, a logical target in the social pillar is diversity among clinical trial participants. When drugmakers developing new treatments design clinical trials and decide where to launch them, the companies in effect create the universe of patients who could benefit from the therapies. If prospective drug treatments are not tested in the individuals most affected by the condition—those most likely to benefit from the drugs after approval—access to healthcare for those individuals could be compromised.

The FDA has asked companies to create clinical trials that are more representative of populations with the targeted disease—an issue underscored in an FDA analysis of clinical trials in 2020 that found only 8% of participants were Black, despite making up 13% of the US population.²⁵ The agency's emphasis on increasing enrollment of underrepresented groups is expected to grow under the Biden administration.²⁶

HRI's analysis of press releases and corporate sustainability reports from life sciences companies revealed some ways companies are trying to address clinical trial diversity.²⁷

Examples include:

Bristol Myers Squibb Foundation has partnered with the National Medical Fellowships group to train and develop 250 clinical trial investigators who are racially and ethnically diverse or have demonstrated a commitment to increasing diversity in clinical trials.²⁸ The program also will help investigators build capacity and stand up trial sites in communities with diverse and “heavily burdened” populations.

Regeneron Pharmaceuticals started in 2019 a framework “of processes and controls to increase awareness and incorporate diversity considerations into the design and placement” of its clinical trials, according to the company's corporate responsibility report.²⁹

Roche's Genentech unit has been broadening its clinical and commercial reach into underserved populations for several years with its commitment to “Advancing Inclusive Research.”³⁰ After learning that Black women in Memphis, Tennessee, die of breast cancer at two times the rate of white women, it helped support the Memphis Breast Cancer Consortium in 2016.³¹ The consortium includes Sister Pact, a program to improve breast cancer screening among Black women.³² In 2020, Genentech's Advancing Inclusive Research initiative led to a collaboration with OneOncology, a national partnership of independent oncology practices, to announce its first clinical trial with community cancer center sites to attract a more diverse pool of participants.³³



Product safety is another area where companies can produce social benefits. One possibility: taking proactive measures to help ensure that drugs and devices are being used correctly in the right patients at the right time.

The inadequacies of the supply chain for devices and other medical products were laid bare amid the COVID-19 pandemic.³⁴ Armed with wisdom gleaned from hindsight, companies now have the opportunity to address these issues, while also improving some social metrics of ESG reporting. According to HRI's August 2020 executive survey, 94% of life sciences executives said improving their supply chain overall was a priority in 2021.³⁵

HRI's analysis of ESG reporting found that some companies are taking steps to diversify their supply chains by including small, local and/or minority-owned businesses.³⁶ Shoring up the supply chain through redundancy was a key finding of HRI's "Top Health Industry Issues of 2021" report.³⁷ Many life sciences companies also are using a network effect to help ensure that their supplier's supplier is taking appropriate steps consistent with the company's ESG strategy.

One example is Gilead, which has established a supplier code of conduct for all of its vendors and their subcontractors.³⁸ The code covers ethical practices in such realms as diversity

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and inclusion, business integrity, and management systems necessary to facilitate continued improvement and compliance with the code. For 2020, the company set a goal of having 90% of suppliers (based on annual spending) and 100% of new, indirect suppliers to agree to the code.³⁹ Zimmer Biomet breaks down its spending on certain diverse suppliers, such as historically underutilized business zone small businesses, or small disadvantaged businesses.⁴⁰ Medtronic also identifies and tracks diverse supplier categories and uses global supplier standards that include human rights and labor standards.⁴¹



Governance and reporting: Tone at the top to drive change

One challenge for pharmaceutical and life sciences companies is settling on a reporting framework. Often, a single reporting framework may not meet their specific needs. An HRI analysis of ESG reporting frameworks across 32 pharmaceutical and life sciences companies found that 25% were using a combination of two: the Global Reporting Initiative (GRI) and Sustainability Accounting Standards Board (SASB) (see Figure 3).⁴²

The GRI Standards offer practices for reporting publicly on a range of economic, environmental and social impacts. SASB Standards identify the subset of environmental, social and governance issues most relevant to financial performance in various industries, including healthcare subsectors. Some companies used the Task Force on Climate-Related Financial Disclosures, which focus on climate change's impacts using a four-pillar approach.⁴³

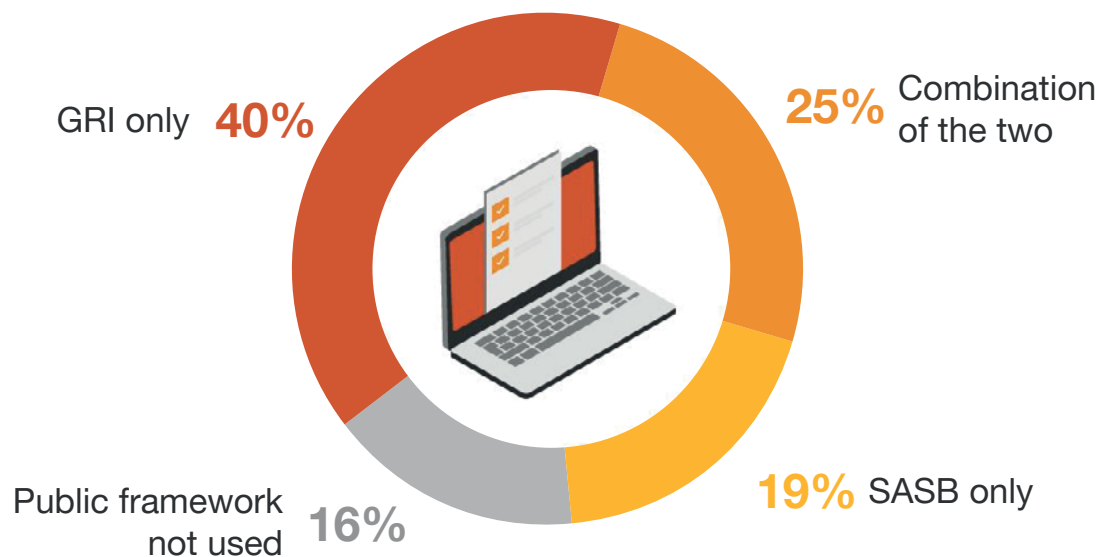
In selecting a framework, companies may consider which metrics make the most sense to publicly commit to and report on. These decisions may depend on which factors are the most material to their business and what types of organizations are most interested in the results (e.g., investors or regulators).

For its 2020 ESG report—the company's first—Pfizer included the audit team early on to help ensure data completeness and accuracy, and to train colleagues unfamiliar with the ins and outs of data collection for public consumption, notes Lillian Hickey, Senior Director in Pfizer's corporate audit practice.⁴⁴ "We were providing real-time feedback," she said in an interview with HRI, "so if we saw any errors or miscalculations, we would give the data back so it could be corrected."

HRI's analysis of sustainability, equity and ESG leadership across 32 pharmaceutical and life sciences companies found that a majority had named executives to oversee many of the ESG-related initiatives and programs, although only a small share had made that position part of the executive committee.⁴⁵

Additionally, when it comes to governance, companies also have a vested interest in proper product use to achieve the medically desired outcome. Use of a product outside of its intended purpose could bring negative consequences for the company, patients and society.

Figure 3: Companies are feeling their way with reporting frameworks, with most seeking a blended or hybrid approach



GRI = Global Reporting Initiative; SASB = Sustainability Accounting Standards Board

Source: PwC's Health Research Institute analysis of 32 of the most recently available, 2019 or 2020, Corporate Sustainability Reports for pharmaceutical/life science companies

IMPLICATIONS

Embed ESG in your strategy and purpose

Many pharmaceutical and life sciences companies have the opportunity to move beyond platitudes to build action-oriented ESG efforts throughout their business—from supply chains to environmental footprint, clinical trial diversity to executive leadership composition. As any ESG strategy should, these steps should already align with the organizations' overall mission. Broader public awareness about sustainability and corporate responsibility means organizations can differentiate themselves by acting early to build ESG strategies that can enhance reputations with customers, employees, investors and analysts. ESG is a critical driver to capture opportunity and keep ahead of vulnerability.

Measure for transparency and accountability

Some pharmaceutical and life sciences companies may be able to take giant leaps in their ESG reporting by better measuring, quantifying and communicating what they already are doing in these arenas, to be sure they are sharing the value they already create for society. It may require new processes to capture data, or working with third parties, but leaders can use proven tactics and smarter technologies to identify, measure and hold their business accountable to ESG principles. Companies can take a proactive approach to telling their story—to employees, customers, shareholders, suppliers and other stakeholders—using these trusted metrics and disclosures.

Create a practical plan for action

Creating value and impact through ESG means viewing it as more than an obligatory requirement and developing a tangible and practical plan that the company can act on. It requires people and technology working together so companies can see more, go deeper and act faster to make ESG-driven changes to their operations, value chain and organization. Pharmaceutical and life sciences companies can consider how to operate the business more efficiently throughout, from electricity use to travel, and take first steps in new areas or more fully advance their ESG goals in each pillar.



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