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# Pfizer Inc. (PFE)

Initiating Coverage with a Buy Rating and Price Target of $30.

**Primary Report** **April 6, 2024**

As the COVID-19 pandemic receded, Pfizer's sales and profits fell sharply. Combined sales and alliance revenues of COMIRNATY, the COVID vaccine, and PAXLOVID, the COVID oral antiviral, fell 78% to $12.5 billion in 2023. Some of the declines were due to one-time inventory management issues associated with the transition from governmental emergency use authorization to commercial use. Nevertheless, the sales drop had a big impact on Pfizer's bottom line. 2023 GAAP diluted EPS was $0.37, down from $5.47 in 2022 and adjusted (non-GAAP) diluted EPS was $1.84, down from $6.58.

The drop in sales and earnings sparked a 43.8% drop in Pfizer's share price in 2023, grossly underperforming the S&P 500's 24.2% advance and the NYSE ARCA Pharmaceutical Index's 4.9% rise.

Pfizer, like many of its large cap peers, has reshaped its business over the past several years, jettisoning OTC consumer products and established brands (i.e. drugs which have lost patent protection) to focus on proprietary medicines. At year-end 2023, it acquired Seagen, a leader in antibody drug conjugates (ADCs), a next generation treatment for cancer. With the acquisition, the company has restructured its organization, creating an Oncology division by merging Seagen with its own oncology operations. It has also formed the U.S. and International Commercial divisions to manage the rest of its business.

2024 will be a year of execution and integration following the adoption of its new organizational structure and as it pursues more operating cost reductions. With a lower baseline of COVID-related revenues, the addition of Seagen and a reclassification of royalties from other income, management expects revenues to be flat to up 3.4% in 2024 and adjusted EPS of $2.05-$2.25, up from $1.84 in 2023. Pfizer's legacy business is expected to earn $2.45-$2.65, partially offset by $0.40 of dilution from the Seagen acquisition.

My projections are in line with management's guidance. I anticipate 2024 revenues of $60.3 billion, near the midpoint of guidance, and adjusted diluted EPS of $2.23, just below the high end of guidance.

Pfizer's earnings have fallen faster than it share price, so its valuation multiple has actually increased. The stock is currently valued at 12.0 times projected 2024 adjusted EPS of $2.23 and 11.3 times projected 2025 adjusted EPS of $2.36. That compares with the peer group average (excluding LLY) of 12.7 times projected 2024 earnings and 11.4 times projected 2025 earnings.

The large cap pharmaceutical sector trades at a discount to the S&P 500's forward valuation of 21.7 times projected 2024 (non-GAAP) operating earnings. That discount reflects investor uncertainties regarding looming patent expirations, government efforts to reduce pharmaceutical costs and intense industry competition. Although Pfizer's valuation discount vs. peers is small, its poor relative performance over the past two years or so suggests reasonable upside if the company is able to realize the potential from Seagen and other recent acquisitions and begins to demonstrate progress in improving its profitability.

My price target of $30 assumes a one-year forward multiple of 12.5 times projected 2025 adjusted EPS of $2.36, modestly higher than the current 12.0, but slightly below the current peer group average 12.7. Along with its fat dividend yield of 6.3%, the price target represents a potential total return of 18.8%, which merits a performance rating of "1" (Buy).

The high dividend yield reflects investor concerns about the sustainability of its dividend. Pfizer did not generate sufficient free cash flow to cover its dividend payment in 2023. My projections anticipate free cash flow coverage of the dividend will improve but remain below 1.0 in 2024 and rise above 1.0 in 2025.

**Common Stock Performance Rating: 1; Safety Rating: C** **S&P 500: 5204.34**

**Selected Bond and Common Stock Data**

| Amt Outst ($m) | CUSIP | Type (a) | Recent Price (b) | Coupon | Maturity | YTW | Spread | Call Date | Call Price | Credit Ratings |
|---|---|---|---|---|---|---|---|---|---|---|
| 4,000 | 716973AC6 | Senior Notes | 98.07 | 4.450% | 5/19/28 | 4.97% | 54 bp | 4/19/28 | 100.00 | A2/A |
| 3,000 | 716973AD4 | Senior Notes | 99.23 | 4.650% | 5/19/30 | 4.99% | 60 bp | 3/19/30 | 100.00 | A2/A |
| 5,000 | 716973AE2 | Senior Notes | 97.23 | 4.750% | 5/19/33 | 5.13% | 76 bp | 2/19/33 | 100.00 | A2/A |
| 3,000 | 716973AF9 | Senior Notes | 95.65 | 5.110% | 5/19/43 | 5.48% | 83 bp | 11/19/42 | 100.00 | A2/A |
| 6,000 | 716973AG7 | Senior Notes | 97.42 | 5.300% | 5/19/53 | 5.48% | 93 bp | 11/19/52 | 100.00 | A2/A |
| 4,000 | 716973AH5 | Senior Notes | 95.07 | 5.340% | 5/19/63 | 5.65% | 112 bp | 11/19/62 | 100.00 | A2/A |

(a) All bonds issued by Pfizer Investment Enterprises to fund the acquisition of Seagen. (b) Bond prices as of April 5, 2024.

| Shares Outst. (mil.) | Common Stock | 4/5/24 Price | Div. per Share | Div. Yield | Tangible Book Val. | Proj '24 GAAP EPS | 2024 P/E | Proj. '25 GAAP EPS | 2025 P/E |
|---|---|---|---|---|---|---|---|---|---|
| 455.7 | Pfizer Inc. (PFE) | $26.66 | $1.68 | 6.3% | ($7.73) | $1.11 | 24.0 | $1.32 | 20.2 |

Projected Adjusted (non-GAAP) EPS is $2.23 for 2024 and $2.36 for 2025.

**Business**

Pfizer is a global biopharmaceutical company focused on the discovery, development, manufacture, marketing and sales of proprietary therapies developed in its own research laboratories or through partnerships, collaborations and alliance with other pharmaceutical companies, large and small. The company is currently the fourth largest global biopharmaceutical company by 2023 revenues and the eighth largest by equity market capitalization.

The company's only reportable business segment is Biopharma, which accounted for 97.8% of 2023 total revenues. The remaining 2.2% of revenues were from Business Innovation, an operating segment established in 23Q1 consisting of PC1, a contract development and manufacturing business and supplier of specialty active pharmaceutical ingredients, and Pfizer Ignite, which offers strategic guidance and end-to-end R&D services, mostly to small biotech companies that align with Pfizer's own R&D interests.

In July 2019, Pfizer and GlaxoSmithKline PLC (GSK) combined their respective consumer healthcare businesses in a joint venture, with Pfizer receiving a 32% equity stake and GSK the remaining 68%. In July 2022, GSK spun-off the JV, which was named Haleon. At year-end 2023, the carrying value of Pfizer's 32% equity stake in Haleon was $11.5 billion. In March, Pfizer reduced its stake in Haleon to 22.6% in a combined public offering and direct share sale to Haleon for estimated proceeds of $3.4 billion (probably before underwriting fees and discounts). I estimate the sale will result in a small, realized gain of about $100 million or less for Pfizer (before fees and discounts), which will be recorded in its 24Q1 results.

In November 2020, Pfizer spun-off its Upjohn Business, which consisted of its off-patent branded and generic drugs, including such recognized brands as Lipitor, Lyrica, Norvasc, Celebrex and Viagra. Upjohn was combined with Mylan N.V. to form Viatris Inc. (VTRS).

Pfizer's sale of its consumer healthcare business and spin-off of Upjohn is consistent with moves taken by other large pharmaceutical companies to focus on their core proprietary pharmaceuticals businesses. Merck spun-off its off-patent, women's health and biosimilars business, Organon & Co., in 2021. GSK, as noted, has divested most of its interests in Haleon. Novartis spun off Alcon Inc., its eyecare business, in 2019, and Sandoz A.G., its generics business, in October 2023. Johnson & Johnson spun-off 90.5% of Kenvue, its consumer healthcare business, in August 2023. Many investors are now calling for Bayer A.G. to do the same for its consumer healthcare business, in light of the pressures caused by product liability lawsuits arising from Round-Up, a weedkiller produced by its Monsanto subsidiary.

These divestitures suggest that the large pharmaceutical companies are aiming to gain greater organizational focus to develop new and emerging therapies where pricing is likely to obtain greater protection through patents, regulatory exclusivity and increasing technical and scientific sophistication.

At the same time, most of these companies are more heavily reliant upon acquisitions, collaborations and alliances to augment their internal R&D efforts in order to add revenues to replace therapies that are losing exclusivity and otherwise grow their businesses. Besides Seagen, in 2022 Pfizer acquired **Global Blood Therapeutics, Inc.**, with its FDA-approved therapy, Oxbryta, and other potential candidates for sickle cell disease, for $5.7 billion; **Biohaven Pharmaceutical Holding Company Ltd.**, the maker of Vyrtec ODT/Vydura for the treatment of acute migraines and prevention of episodic migraines, for $12.9 billion (including assumed debt and redemption of preferred stock); **Arena Pharmaceuticals, Inc.**, a clinical stage pharmaceutical company with therapeutic candidates in gastroenterology, dermatology and cardiology for $6.6 billion; and **ReViral Ltd.**, a clinical stage biopharmaceutical company focused on antiviral therapeutics that target respiratory syncytial virus (RSV), for $536 million.

Following the Seagen acquisition, Pfizer does not intend to make another major acquisition for some time. Its capital allocation program will focus on maintaining (and increasing) the dividend, reducing debt, investing in R&D (mainly through licensing, collaborations and small acquisitions) and share buybacks.

Pfizer's five key priorities are

- To achieve world class oncology leadership
- To maximize performance of new products (both newly launched and acquired).
- To deliver the next wave of pipeline innovation (outside of oncology), with a focus on vaccines, metabolic diseases and inflammatory diseases
- To expand margins by realigning its cost base
- To allocate capital to enhance shareholder value

World Class Oncology Leadership: Pfizer aims to accelerate breakthroughs that help people with cancer live better and longer lives. About two million new cases of cancer are expected in the U.S. in 2024 and 600,000 are expected to die from the disease. Globally, 20 million new cases and 10 million deaths are forecasted. Despite the advances made in treatment, cancer remains an area of significant unmet need.

From 2014-2023, Pfizer's Oncology revenues increased at a 19%+ compounded annual growth rate (CAGR), well above the industry average of 10%, according to Evaluate Pharma. The number of patients Pfizer treated over that time grew from 230,000 in 2014 to 2.3 million in 2023, or at a 29% CAGR. The company aims to double the number of cancer patients treated to 4.6 million by 2030.

The acquisition of Seagen marks the next phase of the Oncology Division's growth. Pfizer completed the acquisition on December 14, paying $44.2 billion (or $43.4 billion, net of cash), excluding $0.5 billion in post-closing compensation expense recorded as an acquisition-related cost. The preliminary cost allocation for the acquisition included $20.8 billion of in-process R&D and $16.1 billion of goodwill.

Seagen develops, manufactures, markets and distributes antibody-drug conjugates, which are targeted therapies for cancer. At year-end, its portfolio comprised four approved therapies and a pipeline of candidates. The four approved therapies, along with royalty, collaboration and licensing revenues, generated approximately $2.1 billion in revenues in 2023, according to Pfizer's pro forma financial disclosures. Pfizer anticipates that the Seagen portfolio will generate $3.1 billion in revenues in 2024.

In its planning for the integration of Seagen and the creation of its Oncology Division, Pfizer sought to keep the best talent and skillsets from both organizations. Each holds roughly 50% of the management positions within the Division. The aim is to preserve and enhance the clinical success that Seagen has achieved and augment its efforts with Pfizer's own clinical capabilities. The acquisition of Seagen has also bolstered Pfizer's development pipeline with more potential breakthrough medicines and a major thrust in ADCs and bispecific monoclonal antibodies[1].

The Oncology Division will also benefit from Pfizer's scale and focus on execution. In 2022, Pfizer ranked second in the industry on many cycle time metrics, according to the Centre for Medicines Research (a

[1] A bispecific monoclonal antibody is an artificial protein with two binding sites directed at two different antigens or two epitopes on the same antigen. Its clinical therapeutic effect is believed to be superior to monoclonal antibodies, with potential applications for tumor immunotherapy as well as the treatment of other diseases. https://www.ncbi.nlm.nih.gov/pmc/articles/PMC8131538.

wholly owned subsidiary of Clarivate (www.clarivate.com). Pfizer and Seagen together have received eight approvals for eight cancer indications over the past three years.

Seagen will likewise benefit from Pfizer's operating scale and global reach. As a result of the combination, it will have access to ten manufacturing sites (compared with one, prior to the merger) on three continents serving more than 100 countries. The merger increases Seagen's ADC vial capacity by a factor of six times and its bioreactor capacity by seven times. It also expands Seagen's U.S. customer facing footprint by three times and its share of voice (in advertising) in key tumor areas by two times. The combination will broaden and deepen both organizations' engagement with healthcare professionals.

Pfizer aims to expands its number of blockbuster (i.e. >$1 billion in revenues) oncology medicines from five today to eight or more by 2030. It also hopes to expand the proportion of biologics in its oncology business from 6% today to 65% by 2030.

Pfizer Oncology will focus on the development of small molecule, ADC and bispecific therapies in breast (across all subtypes), genitourinary (prostate and urothelial), hematological (multiple myeloma and lymphoma) and thoracic (non-small cell lung cancer (NSCLC) and head-and-neck squamous cell carcinoma (HNSCC)) cancers.

In **genitourinary cancers**, Seagen's PADCEV (enfortumab vedotin-ejfv), an ADC that is being co-developed and jointly commercialized with Astellas Pharma, posted an estimated $660 million in sales in 2023, up 46% from 2022. I project that it will generate $1.0 billion in sales in 2024, up 55%.

PADCEV is approved in the U.S. for adults whose urothelial cancer cannot be removed by surgery and who have received (1) platinum chemotherapy and immunotherapy or (2) at least one other type of treatment and cannot receive cisplatin. It is also approved in combination with KEYTRUDA (pembrolizumab) for locally advanced or metastatic urothelial cancer (LA/mUC) in adults who cannot receive cisplatin.

The PADCEV-KEYTRUDA combination is also in a Phase 3 study in patients with previously untreated LA/mUC vs. chemotherapy, the current standard of care. Preliminary results show that the combination halved the risks to progression-free survival (PFS) and overall survival (OS). PADCEV is also being tested in muscle invasive bladder cancer (for both cisplatin-eligible and cisplatin-ineligible patients). Longer-term, Pfizer plans to test PADCEV (as monotherapy and in combinations) in a variety of solid tumors.

XTANDI (enzalutamide) is an androgen receptor inhibitor indicated for patients (1) with prostate cancer that no longer respond to hormone therapy or surgical treatment to lower testosterone or (2) whose prostate cancer is responsive to those treatments but has metastasized. A combination of XTANDI and Pfizer's TALZENNA (talazoparib), is indicated for metastatic castration-resistant prostate cancer (mCRPC).

Like PADCEV, XTANDI is being developed and commercialized in collaboration with Astellas. Its alliance revenues were $1.2 billion in 2023, essentially flat with 2022, as lower margins from unfavorable channel mix changes were offset by higher unit volume. XTANDI's patent protection expires in 2027.

Pfizer is developing Seagen's Disitamab Vedotin (DV), an HER2-directed ADC, as monotherapy in second line or higher HER2+ (high) LA/mUC. DV demonstrated an overall response rate of 50.5% in a phase 2 trial, which earned it a breakthrough therapy designation from the FDA. Pfizer also believes that a combination of DV with KEYTRUDA has promising potential in HER2+ LA/mUC in early lines of therapy.

In **thoracic cancers**, NSCLC and HNSCC, Pfizer's approved medicines are XALKORI (crizotinib), a treatment for metastatic NSCLC whose cancer is caused by a defect in either the ALK or ROS1 genes, LORBRENA (loratinib), another ALK+ NSCLC medicine, and the BRAFTOVI-MEKTOVI combination (emcorafenib+ binimetinib), indicated for metastatic NSCLC with an abnormal BRAF gene. (BRAFTOVI and MEKTOVI are also used alone or in certain combinations to treat melanoma and colorectal cancer.)

Together, these medicines produced revenues of $1.3 billion in 2023, up 10.4% from $1.18 billion in 2022. Some of LORBRENA's growth has come at the expense of XALKORI, however, because of its demonstrated superiority in a clinical trial and especially its ability to reduce the risk of brain metastases.

Besides the three established thoracic cancer treatments, Pfizer is touting the potential of Sigvotatug Vedotin (IB6 ADC), an anti-integrin beta-6 monoclonal antibody. IB6 is overexpressed in a range of solid tumors, including NSCLC, and is usually associated with a poor prognosis. IB6 ADC has been engineered for high selectivity to the beta-6 target, which limits binding to other integrins that are more likely to be expressed in normal tissue. This potentially reduces IB6 ADC's off-target toxicity. In a phase 1 trial, it shrank tumors meaningfully for two-thirds of participants and scored an overall response rate (ORR) of 31.3%. As with Seagen's other ADCs, Pfizer expects a similar benefit with a combination of IB6 ADC and KEYTRUDA.

In **breast** cancer, Pfizer's flagship product is IBRANCE (palbociclib), the world's first CDK 4/6 inhibitor, indicated for the treatment of hormone receptor positive (HR+), human epidermal growth factor receptor 2-negative (HER2-) metastatic breast cancer. The HR+ HER2- subtype is prevalent in 65%-70% of breast cancers.

IBRANCE generated $4.75 billion in revenues for Pfizer in 2023 (or 40% of the Oncology Division's total revenues), down 7.2% from $5.12 billion in 2022, which in turn was down 5.8% from $5.44 billion in 2021. It is evident, therefore, that IBRANCE is gradually giving away market share to newer therapies. IBRANCE loses patent protection in 2027 in the U.S. and in 2028 in the E.U. and Japan.

IBRANCE's declining market share and looming patent expiration were certainly contributing factors in Pfizer's decision to acquire Seagen. Furthermore, the company is seeking to develop new breast cancer therapies that can replace the expected decline IBRANCE's revenues. At present, Pfizer has four promising candidates, including two that are in phase 3 clinical trials.

One of its promising candidates is atirmociclib, a CDK4 inhibitor. Preclinical evidence suggests that atirmociclib could have better efficacy and potentially better tolerability than IBRANCE and other CDK4/6 inhibitors. Pfizer believes that atirmociclib's targeting of CDK4 may be more effective because it minimizes the toxicity associated with therapies that inhibit CDK6 and other kinases. The company is now enrolling a phase 3 trial of atirmociclib with Faslodex (fulvestrant) in metastatic breast cancer following CDK4/6 treatment. It is also planning a phase 3 trial of atirmociclib in combination with an aromatase inhibitor as a first-line treatment for metastatic breast cancer and a phase 2 trial of the same combination as an early breast cancer treatment, both of which are expected to start in 24H2.

Another promising candidate is vepdegestrant (vepdeg), a PROTAC (proteolysis targeting chimera)-ER (estrogen receptor) degrader, which could become the backbone of its next-generation endocrine therapy. Vepdeg directly removes or blocks sex hormones that foster tumor growth and inhibits signaling to disrupt ER mutations that support tumor resistance to endocrine therapy. Pfizer is pleased with the clinical data generated by vepdegestrant as monotherapy and especially with the antitumor activity that it has demonstrated in heavily pre-treated patients with locally advanced or metastatic ER-positive, HER2-negative breast cancer. This supports further development of vepdeg in multiple therapeutic strategies.

With the acquisition of Seagen, Pfizer has added TUKYSA (tucatinib), a best-in-class tyrosine kinase inhibitor (TKI) indicated in combination with Herceptin (trastuzumab) and Xeloda (capecitabine) for the treatment of HER2+ metastatic breast cancer in patients who have received at least one other treatment. (It is also indicated, in combination with Herceptin, for the treatment of RAS wild-type HER2+ metastatic colorectal cancer.) According to my estimates, Tukysa posted revenues of about $380 million in 2023, up 8% from $353 million in 2022. I project that its revenues will increase 15% to $439 million in 2024.

TUKYSA is highly selective for HER2 and has notable brain penetration properties that can delay and perhaps even prevent the brain metastases that occur in more than 50% of patients. Accordingly, Pfizer is pursuing additional regulatory approvals for TUKYSA as monotherapy and in various combinations in earlier lines of treatment.

In all, the Pfizer sees numerous opportunities to expand its breast cancer portfolio. With Seagen, it now has eight compounds in active development and seven ongoing phase 3 clinical trials. It anticipates readouts from many of these trials through the first half of 2025 that should support further clinical development and move a higher proportion of the portfolio closer to commercialization.

In **hematology-oncology**, Pfizer currently has nine approved medicines that span all three core modalities: ADCs, IO Biologics (including bispecific antibodies) and small molecules. Within ADCs, ADCETRIS (brentuximab vedotin), acquired through Seagen, targets CD30-expressing lymphomas. It is a well-established and quite successful therapy, having launched in 2011 and with estimated revenues of $1.05 billion in 2023, up 24.9% from $839.3 million in 2022 (and a two-year CAGR of 22%). My projections anticipate $1.4 billion of revenues for ADCETRIS in 2024, up 35.0%. That is quite optimistic since ADCETRIS's U.S. patent protection expires this year; but Pfizer has patents covering other aspects of ADCETRIS's related ADC uses, technology and manufacturing that will remain in force beyond 2024. (As with all of Seagen's approved therapies, I have 2024 revenue growth estimates that are higher than 2023's, under the assumption that sales will get an extra boost from Pfizer's greater worldwide marketing reach.) Pfizer has another ADC candidate targeting CD30-expressing lymphomas which could be a replacement for ADCETRIS, but that compound is in a phase 1 clinical trial, so it will likely be some time before it comes to market.

Besides ADCETRIS, Pfizer's leading hematology-oncology therapies (in terms of revenue) include Bosulif (bosutinib), a small molecule, protein TKI inhibitor, indicated for certain types of chronic myeloid leukemia (CML); Ruxience (rituximab-pvvr), indicated for non-Hodgkins lymphoma, chronic lymphocytic leukemia and follicular lymphoma; Retacrit (epoetin alfa-epbx) for anemia associated with cancer treatments; Besponsa (inotuzumab ozogamicin), an ADC targeting B-cell acute lymphoblastic leukemia; and Mylotarg (gemtuzumab ozogamicin), an ADC targeting acute myeloid leukemia.

Pfizer does not break out sales for all nine of its hematology-oncology therapies. Undisclosed sales of certain therapies are presumably not material. For sales that have been disclosed and my full year estimate for ADCETRIS sales, I estimate that the hematology-oncology portfolio delivered revenues of approximately $2.7 billion in 2023, up 9.7% from $2.45 billion in 2022. Substantially all of the increase is due to the estimated sales growth for ADCETRIS.

In August 2023, Pfizer obtained the FDA's accelerated approval for ELREXFIO (elranatamab-bccm), a bispecific B-cell maturation antigen (BCMA)-directed CD3 T-cell engager for adults with relapsed or refractory multiple myeloma who have received at least four prior lines of therapy, including a proteasome inhibitor, an immunomodulatory agent and an anti-CD38 monoclonal antibody. ELREXFIO received FDA approval after a phase 2 clinical trial in which it showed a high and durable level of response in those patients. It is indicated after four prior lines of therapy because of the risk of adverse events, specifically life threatening or fatal cytokine release syndrome (CRS) and neurologic toxicity. Among patients who received the recommended dose, 58% suffered CRS and 59% neurologic toxicity. For that reason, the FDA has mandated a black box warning label and administration of the therapy through a Risk Evaluation and Mitigation Strategy (REMS), which requires that doctors be trained in giving the treatment to patients.

Despite these restrictions, Pfizer management has high hopes for this therapy. In its phase 2 clinical trial, ELREXFIO demonstrated deep and durable responses with an ORR of 61% and complete remission in 37% of patients. Median duration of response has still not yet been reached at 18 months. For a patient population that had essentially run out of treatment options, these are remarkable results.

An update to the clinical trial, including overall survival data, will be released later in 2024, Management expects that the data will only get stronger as ELREXFIO pushes into earlier lines of therapy.

Management believes ELREXFIO's safety profile is tolerable. The U.S. label recommends 48 hours of hospitalization following the first step-up dose and 24 hours after the second step-up dose. That is half of the hospitalization time recommended for other approved BCMA bispecific antibodies. Furthermore, Pfizer notes that ELREXFIO has several convenience factors vs. the competition, including the ability to switch from weekly to bi-weekly dosing in as little as 24 weeks.

Despite this optimism, the black box warning and REMS program specification suggest that sales will ramp slowly at first; but accelerate over time, if the data confirm the results of that initial clinical trial. My projections anticipate ELREXFIO revenues of $250 million in 2024 and $650 million in 2025, which may be optimistic in timing. Even so, it does appear that this therapy is capable of producing revenues well in excess of $1 billion.

Pfizer has an attractive portfolio of potential therapies; but it is not clear whether and when the company will be able to more than offset the likely losses from patent expirations on existing blockbuster medicines, including ADCETRIS ($1.0 billion of sales; LOE in 2024, but other patents may sustain sales beyond 2024), INLYTA (for advanced renal cell carcinoma, $1.0 billion of sales, LOE in 2025), IBRANCE ($4.5 billion of sales, LOE in 2027) and XTANDI ($1.2 billion of alliance revenues, LOE in 2027). These four therapies represent about 56% of Pfizer Oncology's pro forma 2023 sales of $13.7 billion.

Deliver the Next Wave of Pipeline Innovation. Besides Oncology, Pfizer is also pursuing discovery and development of new molecules in vaccines, anti-infectives, metabolic diseases and inflammation & immunology. These efforts are facilitated by its expansive investment in R&D, through which it is pursuing new, emerging scientific advances, and utilizing technology, such as artificial intelligence and other digital tools, to decrease development time and increase success rates.

Some examples of these initiatives include the initiation of a phase 1 clinical trial for its fourth generation pneumococcal conjugate vaccine, which has received the FDA's fast track designation. This next generation vaccine aims to maintain its FDA labelling for both pneumococcal disease and invasive pneumococcal disease (IPD) in adults while increasing valency and serotype immunogenicity. Pfizer's PREVNAR family of pneumococcal vaccines, which protects adults and children, garnered $6.4 billion of revenues in 2023.

Besides PREVNAR, Pfizer's ABRYSVO, a respiratory syncytial virus (RSV) vaccine was approved for older adults in early 2023 and its labelling was extended to pregnant women to prevent RSV-associated lower respiratory tract illness in infants from birth up to six months of age. In 2023, the first year of its approval, the vaccine generated $890 million of revenues for Pfizer.

Also under development are an investigational pentavalent meningococcal vaccine for adolescents, a primary Clostridioides difficile infection vaccine (which has received the FDA's fast track designation), a lime disease vaccine, an mRNA influenza vaccine, and new versions of ABRYSVO for RSV in adults 18-59 and children. Pfizer is also pursuing various combination vaccines for influenza, RSV and COVID-19.

Pfizer's COVID-19 vaccine, COMIRNATY, has seen sales drop from a peak of $36.8 billion in 2021 at the height of the pandemic to $11.2 billion in 2023. Pfizer and its development partner, BioNTech, are continually updating COMIRNATY to address emerging strains of the virus. They are also developing special versions of the vaccine targeted to certain age groups (e.g. infants and toddlers, children aged 5-11) and a combination of COMIRNATY with its influenza vaccine.

In 2023, COMIRNATY fully transitioned from governmental emergency use authorization to commercial sales. This coincided with a substantial decline in demand as the pandemic has receded and the virus has weakened. Pfizer believes that there will continue to be demand for COMIRNATY, especially among older adults, and through the combination of COMIRNATY with its influenza vaccine. It therefore anticipates that sales will stabilize going forward. For 2024, the company now anticipates COMIRNATY sales of $5 billion, down from $11.2 billion in 2023.

The same transition from emergency use to commercial sales has affected sales of PAXLOVID, Pfizer's antiviral treatment for mild-to-moderate COVID-19 in patients who have been symptomatic for five or fewer days and have a high risk of progressing to severe COVID-19. PAXLOVID's sales fell from $18.9 billion in 2022 to $4.8 billion in 2023 (excluding a $3.5 billion sales reversal in 23Q4 associated with the expected return of 6.5 million unused EUA-labelled treatment courses from the U.S. government). As with COMIRNATY, the company expects that PAXLOVID's sales will stabilize as it has transitioned entirely to commercial use. Management's guidance anticipates sales of $3 billion for PAXLOVID in 2024. Pfizer is currently developing a pediatric formulation of PAXLOVID which is in a phase 3 trial and a new COVID-19 antiviral medicine, which has received the FDA's fast track designation and is now in a phase 2 trial.

In inflammation & immunology and internal medicine, Pfizer has seven phase 3 clinical trials currently underway. Among them are potential treatments for ambulatory Duchenne muscular dystrophy (which has FDA fast track status), hemophilia A (fast track and orphan status), and two for sickle cell disease – one, a possible best-in-class HbS polymerization inhibitor which Pfizer believes represents a potential

stepwise advance over OXBRYTA, its FDA-approved sickle cell treatment obtained in the 2022 acquisition of GBT; and the other, a product enhancement of OXBRYTA for pediatric sickle cell disease. OXBRYTA delivered $328 million of revenues to Pfizer in 2023.

Two new molecular entities targeting hemophilia are in registration. One has been classified by the FDA as a regenerative medicine advanced therapy (RMAT) with breakthrough status in the U.S. and orphan drug status the U.S. and E.U. The other has received fast track status in the U.S. and orphan drug status in the U.S. and E.U.

Pfizer also has ponsegromab, a GDF-15 neutralizing antibody, indicated for cancer cachexia, which is loss of skeletal muscle and adipose tissue associated with many forms of cancer. Cachexia is associated with 20%-30% of all cancer deaths. The company believes that ponsegromab, which is currently in a phase 2 clinical trial, has the potential to be the first FDA-approved treatment for this disease.

Maximizing the Performance of New Products and Core Franchises. Management promises a relentless focus on execution to ensure continued revenue growth. It asserts that its new commercial organizations – U.S. and International – will promote greater focus and efficiency. It aims to leverage data to make quick changes to and adapt its go-to-market strategies, product by product.

Pfizer sees near-term opportunities in several key areas. For example, it seeks to maximize the potential of its NURTEC ODT/VYDURA franchise, a treatment for migraines obtained in the 2022 acquisition of Biohaven. With one billion migraine sufferers worldwide, Pfizer sees the potential to greatly expand NURTEC's sales beyond its 2023 base of $928 million. It aims to do this by stepping up direct-to-consumer marketing and reducing barriers to access, such as affordability, for health care practitioners and patients.

For OXBRYTA, Pfizer intends to educate practitioners and patients on the importance of proactive treatment for sickle cell disease, while reframing treatment objectives in light of the chronic nature of the disease. With ABRYSVO, Pfizer aims to expand the overall market and ABRYSVO's market share by raising awareness of the importance of RSV vaccinations through advertising, encouraging year-round discussions with and between practitioners and patients, and expanding retail access points and offerings (including vaccine bundling). With other recently approved therapies, such as VELSIPITY for moderately-to-severely active ulcerative colitis (UC) and LITFULO for adults and adolescents with severe alopecia areata, the challenge is raising awareness about the availability and advantages of these therapies and allowing practitioners and patients to gain access to the therapies through payer approvals and additions to formularies.

Ultimately, efficacy should drive demand; but in this intensively competitive environment, it is important to educate and raise awareness of the availability of individual therapies among payers, practitioners and patients. Affordability is also an increasingly important consideration.

*Pfizer's Other Major Franchises and Development Efforts*. Pfizer's goal of growing revenues is obviously important to equity investors, but its ability to achieve overall revenue growth may be hampered by the cadence of patent expirations and loss of exclusivity through the end of the decade. As discussed above, $7.7 billion or about 56% of Pfizer Oncology's pro forma 2023 revenues of $13.7 billion.

Besides the looming oncology medicine patent expiries, Pfizer faces a similar loss of exclusivity for XELJANZ (2023 revenues of $1.7 billion) in 2025, ELIQUIS ($6.7 billion) in 2026 and the VYNDAQEL family ($3.3 billion) beginning in 2026 in the E.U. and Japan and 2028 in the U.S. All combined, the company faces $19.4 billion of patent expirations, according to my count, equivalent to 32% of pro forma 2023 revenues, through 2028. In order to grow revenues, therefore, Pfizer will almost certainly have to first replace a substantial portion of these lost revenues. (Management estimates $16-$17 billion of potential revenue losses through 2030.)

XELJANZ (tofacitinib), a JAK inhibitor, is a disease modifying antirheumatic drug (DMARD) or anti-inflammatory medicine used to treat certain types of arthritis, such as ankylosing spondylitis, polyarticular juvenile idiopathic arthritis, psoriatic arthritis, rheumatoid arthritis and UC. In 2023, it produced $1.7 billion of revenues. Its patents expire in 2025 in the U.S. and Japan and it loses regulatory exclusivity in 2028 in the E.U. Although Pfizer recently launched VELSIPITY for UC and has a few other molecules with similar targets in its pipeline, it is not clear yet whether any have the sales potential of XELJANZ.

ELIQUIS (apixaban), is an oral anticoagulant medicine (i.e. a blood thinner) that directly inhibits factor Xa. Developed and marketed in a collaboration with Bristol-Myers Squibb, it is used to treat and prevent blood clots and prevent strokes in patients with nonvalvular atrial fibrillation. As noted, its patents expire in 2026. It is also one of ten medications on the U.S. government's list for price negotiations (as mandated by the Inflation Reduction Act). Pfizer does not appear to be developing a replacement for Eliquis after it goes generic. (Bristol-Myers, on the other hand, is developing Milvexian with Jannsen Pharmaceuticals.)

The VYNDAQEL family of medicines (tafimidis) is used to treat or delay progression of a certain type of heart failure called transthyretin-mediated amyloidosis. Sales were $3.3 billion in 2023. Patent protection expires in 2026 in the E.U., 2026 and 2029 in Japan (for two different indications and 2028 (as a result of patent term extensions) in the U.S. Pfizer currently has ponsegromab, a potential treatment for heart failure in a phase 2 clinical trial and another biologic, also for heart failure, in a phase 1 trial.

Investors have also been tracking Pfizer's progress on developing danuglipron, its oral GLP-1R agonist candidate for the treatment of obesity and type 2 diabetes, in light of surge in the share prices of Novo Nordisk and Eli Lilly attributable to their GLP-1 launches. Data from its phase 2b clinical trial in adults with obesity (but without type 2 diabetes) showed a statistically significant reduction in body weight from baseline, but high rates of mild gastrointestinal adverse events (e.g. nausea, vomiting and diarrhea) and discontinuation rates were high. Pfizer is not giving up on danuglipron. It will review the data from the trial to determine the likely path forward, but it will not advance the formulation into phase 3 at this time. Senior management believes that the study was poorly designed because it did not allow a step-down in dose, which may have reduced adverse events. Pfizer has two other molecules in clinical development, including a GLP-1 follow up and another with an unspecified mechanism of action. The disappointing results for danuglipron weighed on Pfizer's share price, after some analysts downgraded the stock.

Expanding Margins by Realigning the Cost Base. Pfizer has set an annual net cost savings goal of $4 billion, which it expects to achieve by the end of 2024. All of the savings are expected to come from reducing costs at Pfizer (and none from Seagen). 70% or $2.8 billion of the savings target will come from cutting R&D expense. (However, Seagen will add $1.5 billion in annual R&D spend.) The remaining 30% or $1.2 billion is expected to come from cuts in selling, informational and administrative expenses.

Besides the additional R&D costs from integrating Seagen, Pfizer expects that increased spending on new product launches will offset part of the cost savings temporarily. Savings will also come by maximizing purchasing economies of scale with help from Seagen's added purchasing power. With the help of a lower cost base, Pfizer aims to bring its profit margins to pre-COVID levels over time.

Allocate Capital to Enhance Shareholder Value. Pfizer's expressed priority is to maintain and grow the stock's $1.68 dividend. At the current quote, that equates to a 6.3% dividend yield. The stock's dividend payout ratio is high – well in excess of 100% of GAAP EPS and 91% of 2023 adjusted (non-GAAP) EPS. By a standard definition of free cash flow (CFOA minus capital expenditures), Pfizer's free cash flow coverage of cash dividend payments was 0.5 times in 2023. (My projections show free cash flow dividend coverage improving to 0.8 times in 2024 and then to 1.1 times in 2025.) Yet, a strong case can be made that acquisitions are a substitute for R&D expense and so should be averaged or amortized into the free cash flow coverage calculation. In that case, 2023 free cash flow coverage of the dividend would be substantially lower and negative in some years.

Pfizer's second priority for allocating capital is to reduce its overall debt, which doubled from $35.8 billion in 2022 to $71.9 billion in 2023, substantially due to the Seagen acquisition. The company's ratio of debt-to-total capitalization increased from 27.2% in 2022 to 44.6% in 2023. Its ratio of total debt-to-TTM adjusted EBITDA[2] increased from 0.8 in 2022 to 3.5 in 2023. Interest coverage (adjusted EBITDA-to-interest expense) decreased from 24.0 times in 2022 to 5.0 times in 2023. Besides the increase in debt, a significant portion of the weakening of Pfizer's credit metrics was due to the decline in sales and profits from the COVID-19 medicines.

[2] Pfizer does not report EBITDA or Adjusted EBITDA. My definition of Adjusted EBITDA excludes write-offs, impairments, restructuring charges and acquisition-related costs. TTM = trailing twelve months

Despite the significant increase in debt and weakening of credit metrics, Pfizer's credit ratings were reduced by only one notch, from A1 to A2 at Moody's and from A+ to A at S&P. Both rating agencies now have a stable outlook on the stock.

My projections assume modest improvement in Pfizer's sales and profitability from the 2024 baseline to 2025. Free cash flow should rise commensurately, allowing for a modest reduction in debt. My projections show that Pfizer's ratio of debt-to-total capitalization will essentially be flat at 44.6% in 2024 and 2025; total debt-to-TTM adjusted EBITDA will increase from 3.5 to 4.0 in 2024 and then decline to 3.7 in 2025; and interest coverage decreases from 9.3 times in 2023 to 6.5 times in 2024, before improving to 6.9 times in 2025. Once again, the weakening of key credit metrics in 2024 is almost entirely attributable to the expected drop in COVID-19 earnings.

Given the challenges posed by approaching patent expirations and the increasing pressure from governments and other payers to reduce pharmaceutical costs, debt reduction should be a key priority for Pfizer.

Pfizer's third capital allocation priority is to invest to grow the business. With the size, scope and extra debt taken on in the Seagen acquisition, the company has said that it does not intend to make another major acquisition for the foreseeable future. However, it will continue to enter into far less costly acquisition, licensing and collaboration agreements to continue to supply its early stage drug pipeline.

With any free cash flow left over after satisfying its top three capital allocation priorities, Pfizer will then return more cash to shareholders through stock repurchases.

**Summary of Financial Guidance and Projections**

*Table 1*

**Pfizer Inc.**

Summary of Financial Guidance for 2024

| Metric | Guidance | Projection Model |
|---|---|---|
| Reported Revenues | $58.5-$61.5 billion | $60.3 billion |
| COMIRNATY Revenues | $5.0 billion | $5.0 billion |
| PAXLOVID Revenues | $3.0 billion | $3.0 billion |
| Seagen-related Revenues | $3.1 billion | $3.1 billion |
| Operational Growth % (1) | 6%-8% | 8.6% |
| Operational Growth % excluding Seagen | 3%-5% | 2.2% |
| Adjusted SI&A Expenses | $13.8-$14.8 billion | $13.9 billion |
| Adjusted R&D Expenses | $11.0-$12.0 billion | $11.5 billion |
| Effective Tax Rate on Adjusted Income | ~15.0% | 15.0% |
| Adjusted Diluted EPS | $2.05-$2.25 | $2.22 |
| Legacy Pfizer EPS | $2.45-$2.65 | NA |
| Seagen Impact | ~($0.40) | NA |

Source: Pfizer management's financial guidance and Lark Research projections.

(1) Operational growth excludes the impact of foreign exchange rate changes on revenues, the revenues from COMIRNATY and PAXLOVID, and projected 2024 royalty revenues of $1.0 billion. Foreign exchange reduced 2023 revenues by $1.022 billion. The projection model assumes no impact from foreign exchange in 2024.

Some key assumptions and uncertainties related to these projections are as follows:

Revenues. Projected revenues are $60.3 billion, within management's guidance range of $58.5-$61.5 billion. Revenue assumptions for COMIRNATY, PAXLOVID and the four Seagen ADCs are also in line with guidance. However, the implied operational growth percentages, both including and excluding the Seagen ADCs, are outside management's guidance ranges. As noted elsewhere in this report, management's revenue guidance on Seagen seems optimistic. The $3.1 billion in revenues expected for 2024 represents an increase of nearly 38% from implied pro forma 2023 full year revenues of $2.26 billion. That would be an acceleration from implied 2023 revenue growth of 27.5% and 2022's revenue growth of 23.2%.

As management has noted in its presentations on Seagen, its oncology marketing organization is now about three times larger than Seagen's, so it is possible that the marketing lift could boost Seagen's base sales levels in 2024. It is also possible (though unlikely, I believe) that other Seagen therapies may contribute to the stepped up 2024 growth assumptions.

However, if $3.1 billion is achievable, then the projected operational growth assumptions both with and without Seagen should be in line with guidance and yet they are not. It would not surprise me, therefore, if Seagen's revenues fall short of the $3.1 billion target. In that case, the shortfall could be made up elsewhere, allowing Pfizer to meet its overall 2024 revenues guidance and also to remain within its operational growth parameters.

Restructuring and Implementation Costs. In 23Q4, Pfizer launched a multi-year, enterprise-wide cost realignment program to bring its costs in line with longer-term revenue expectations. It expects costs associated with this *Realigning our Cost Base Program* to total $3.0 billion and continue through 2024. Most of the costs represent cash expenditures for severance and implementation. Since Pfizer incurred $1.7 billion of costs under this program in 2023, it should record the remaining $1.3 billion in 2024. Accordingly, my projections assume $1.3 billion of restructuring and integration costs in 2024. These costs are included in the determination of GAAP net income, but they are considered a special item for adjusted non-GAAP earnings.

Pfizer typically records restructuring and implementation costs every year, outside of its formal cost reduction programs. My projections assume $640 million of implementation costs in 2024, bringing the total for restructuring and implementation to $1.9 billion, and $1.65 billion of restructuring and implementation costs in 2025 ($930 million for restructuring; $640 million for implementation).

Sale of Haleon Stake. In March, Pfizer reduced its stake in the Haleon joint venture from 32% to 22.6% in a registered public offering and also through a sale of shares back to Haleon. In total, Pfizer received an estimated $3.4 billion of proceeds. My estimates suggest that there was less than a $100 million profit recorded on the sale. Any profit will be included in the other income/expense line item on Pfizer's consolidated statement of income. My projections include the Haleon share sale in 24Q1 estimates.

Other Income/Expense. This income statement line item is expected to swing from $835 million of income in 2023 to $934 million of expense in 2024. The swing is due to a decline in interest income and increase in full year interest expense associated with the financing and use of proceeds for the acquisition of Seagen. In addition, income from royalties has been reclassified this line item to revenues starting this year.

**Stock Price Performance and Valuation**

The decline in sales and profits from COMIRNATY and PAXLOVID combined with looming patent expirations have weighed heavily on the relative performance of Pfizer's stock vs. both peers and the broader market. In 2023, Pfizer's stock declined steadily throughout the year even after the market turnaround in October. For the year, Pfizer's stock fell 43.8%, far worse than the S&P 500's 24.2% gain and the NYSE ARCA Pharmaceuticals Index's (DRG's) 4.9% advance.

Its relative performance appeared to level off late in 23Q4, but the stock has resumed its decline in 2024, even as the broader market has continued to rally. Year to date, the stock has fallen another 7.4%, compared with the gains of 7.9% in the S&P 500 and 9.4% in the DRG. Since hitting a new 52-week low of $25.61 on March 4, Pfizer's relative performance has been slightly better than the market and peers.

With the stock's poor performance over the last 15 months, its relative valuation vs. the market and its large cap peers has declined. The stock now trades at 12.2 times projected 2024 adjusted (non-GAAP) EPS of $2.23 and 11.5 times projected 2025 adjusted EPS of $2.36. That is modestly below the peer group (large cap pharmaceuticals, excluding Eli Lilly (LLY)) averages of 12.7 times for 2024 and 11.4 times for 2025. It is also of course well below the S&P 500's forward multiples of 21.7 times projected 2024 (non-GAAP) operating earnings and 19.0 times projected 2025 operating earnings.

Pfizer management has said that the stock's high dividend is currently the centerpiece of its value proposition for investors. The stock's annual dividend of $1.68 equates to a 6.3% dividend yield at the current price of $26.66. As noted above, the payout ratio is high – 91% of adjusted (non-GAAP) 2023 EPS of $1.84 – but it is sustainable in the short- to medium term and the projected moderate improvement in the company's financial performance through 2025 should serve to lower the payout ratio.

The dividend is important because Pfizer's earnings growth is likely to be modest for perhaps the next few years or longer, as the gains that it makes from launching new products are mostly offset by the decline in revenues associated with the loss of patent protection on a few blockbuster medicines. Nevertheless, my projections indicate that the company's earnings will grow in 2024 and 2025 and together with the high dividend yield, Pfizer's stock can deliver a high-teens total return over the next year.

(Text continues on page 16)

*Table 2*

**Pfizer Inc.**

Historical and Projected Consolidated Statements of Income – 2023-2025F

($ mil.)

| | Historical 12 Months 31-Dec-23 | Projected 3 Months 31-Mar-24 | Projected 3 Months 30-Jun-24 | Projected 3 Months 29-Sep-24 | Projected 3 Months 31-Dec-24 | Projected 12 Months 31-Dec-24 | Projected 12 Months 31-Dec-25 |
|---|---|---|---|---|---|---|---|
| Revenues | 58,496 | 13,950 | 14,160 | 15,820 | 16,365 | 60,295 | 64,105 |
| Cost of sales | 24,954 | 4,604 | 4,673 | 5,062 | 5,237 | 19,576 | 20,814 |
| Selling, info and admin expenses | 14,771 | 3,348 | 3,398 | 3,639 | 3,764 | 14,149 | 14,894 |
| R&D expenses | 10,679 | 2,651 | 2,690 | 3,006 | 3,109 | 11,456 | 12,180 |
| Acquired IPRD expenses | 194 | 42 | 42 | 47 | 49 | 181 | 192 |
| Amort. of intangible assets | 4,733 | 1,287 | 1,287 | 1,287 | 1,287 | 5,147 | 5,147 |
| Restructuring and acq.-rel. costs | 2,943 | 265 | 345 | 345 | 345 | 1,300 | 930 |
| Other (inc)/deductions, net | (835) | 267 | 197 | 225 | 245 | 934 | 944 |
| Inc. from cont. oper. Bef. taxes | 1,057 | 1,487 | 1,527 | 2,209 | 2,329 | 7,552 | 9,003 |
| Provision/(bene.) for income taxes | (1,115) | 223 | 229 | 331 | 349 | 1,133 | 1,350 |
| Inc. from continuing operations | 2,172 | 1,264 | 1,298 | 1,877 | 1,980 | 6,419 | 7,653 |
| Disc. operations, net of tax | (15) | 0 | 0 | 0 | 0 | 0 | 0 |
| Net inc. bef. noncontrolling int. | 2,157 | 1,264 | 1,298 | 1,877 | 1,980 | 6,419 | 7,653 |
| Less: net inc. to noncontrolling int. | 39 | 10 | 10 | 10 | 10 | 40 | 40 |
| Net inc. attrib. to PFE common | 2,118 | 1,254 | 1,288 | 1,867 | 1,970 | 6,379 | 7,613 |
| | | | | | | | |
| EPS | | | | | | | |
| Basic | $0.38 | $0.22 | $0.23 | $0.33 | $0.35 | $1.12 | $1.33 |
| Diluted | $0.37 | $0.22 | $0.23 | $0.33 | $0.34 | $1.11 | $1.32 |
| | | | | | | | |
| Adjusted EPS (non-GAAP) - diluted | $1.84 | $0.49 | $0.51 | $0.61 | $0.62 | $2.23 | $2.36 |
| | | | | | | | |
| Dividends per share | $1.64 | $0.42 | $0.42 | $0.42 | $0.42 | $1.68 | $1.72 |
| | | | | | | | |
| Wtd. avg. shares - basic | 5,643 | 5,646 | 5,651 | 5,661 | 5,671 | 5,671 | 5,711 |
| Wtd. avg. shares - diluted | 5,709 | 5,716 | 5,721 | 5,731 | 5,741 | 5,741 | 5,781 |

Source: Pfizer Inc. financial statements and Lark Research estimates and projections.

*Table 3*

**Pfizer Inc.**

Historical and Projected Consolidated Statements of Financial Position – 2023-2025F

($ mil.)

| | Historical 31-Dec-23 | Projected 31-Mar-24 | Projected 30-Jun-24 | Projected 29-Sep-24 | Projected 31-Dec-24 | Projected 31-Dec-25 |
|---|---|---|---|---|---|---|
| ASSETS | | | | | | |
| Cash and cash equivalents | 2,853 | 500 | 500 | 500 | 500 | 500 |
| Short-term investments | 9,837 | 9,700 | 9,700 | 9,700 | 9,700 | 9,700 |
| Trade accounts receivable | 11,177 | 10,850 | 12,587 | 12,304 | 12,728 | 13,467 |
| Inventories | 10,189 | 10,742 | 9,346 | 9,562 | 9,310 | 9,850 |
| Current tax assets | 3,978 | 4,000 | 4,000 | 4,000 | 4,000 | 4,000 |
| Other current assets | 5,299 | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 |
| Total current assets | 43,333 | 40,792 | 41,132 | 41,067 | 41,238 | 42,518 |
| Equity-method investments | 11,637 | 8,417 | 8,597 | 8,737 | 8,877 | 9,437 |
| Long-term investments | 3,731 | 3,791 | 3,853 | 3,915 | 3,978 | 4,241 |
| PP&E, net | 18,940 | 19,599 | 20,246 | 20,882 | 21,506 | 23,892 |
| Identifiable intangible assets | 64,900 | 63,613 | 62,326 | 61,040 | 59,753 | 54,606 |
| Goodwill | 67,783 | 67,783 | 67,783 | 67,783 | 67,783 | 67,783 |
| Noncurr., def. and other tax assets | 3,706 | 3,700 | 3,700 | 3,700 | 3,700 | 3,700 |
| Other noncurrent assets | 12,471 | 13,000 | 13,000 | 13,000 | 13,000 | 13,000 |
| Total assets | 226,501 | 220,695 | 220,638 | 220,123 | 219,835 | 219,176 |
| | | | | | | |
| LIABILITIES AND EQUITY | | | | | | |
| Short-term borrowings incl. CMLTD | 10,350 | 10,237 | 6,563 | 8,419 | 9,815 | 9,265 |
| Trade accounts payable | 6,710 | 7,068 | 7,174 | 5,203 | 4,709 | 4,983 |
| Dividends payable | 2,372 | 0 | 2,320 | 2,320 | 2,320 | 2,320 |
| Income taxes payable | 2,349 | 2,350 | 2,350 | 2,350 | 2,350 | 2,350 |
| Accr. comp. and related items | 2,776 | 1,767 | 3,587 | 3,252 | 2,018 | 2,136 |
| Deferred revenues | 2,700 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| Other current liabilities | 20,537 | 20,500 | 20,500 | 20,500 | 20,500 | 20,500 |
| Total current liabilities | 47,794 | 42,922 | 43,495 | 43,044 | 42,713 | 42,554 |
| Long-term debt | 61,538 | 61,399 | 61,407 | 61,415 | 61,423 | 61,423 |
| Pension benefit obligations | 2,167 | 2,200 | 2,200 | 2,200 | 2,200 | 2,200 |
| Noncurrent deferred tax liab. | 640 | 650 | 650 | 650 | 650 | 650 |
| Other taxes payable | 8,534 | 8,500 | 8,500 | 8,500 | 8,500 | 8,500 |
| Other noncurrent liabilities | 16,539 | 16,500 | 16,500 | 16,500 | 16,500 | 16,500 |
| Total liabilities | 137,212 | 132,171 | 132,752 | 132,309 | 131,986 | 131,827 |
| Common stock | 478 | 478 | 478 | 478 | 478 | 478 |
| Additional paid-in capital | 92,631 | 92,911 | 93,191 | 93,471 | 93,751 | 94,871 |
| Treasury stock | (114,487) | (114,487) | (114,487) | (114,487) | (114,487) | (114,487) |
| Retained earnings | 118,353 | 117,134 | 116,039 | 115,520 | 115,099 | 112,782 |
| AOCI | (7,961) | (7,792) | (7,623) | (7,454) | (7,285) | (6,609) |
| Total PFE shareholders' equity | 89,014 | 88,244 | 87,598 | 87,528 | 87,556 | 87,035 |
| Noncontrolling interests | 274 | 281 | 288 | 287 | 294 | 314 |
| Total equity | 89,288 | 88,525 | 87,886 | 87,815 | 87,850 | 87,349 |
| Total liabilities and equity | 226,500 | 220,695 | 220,638 | 220,123 | 219,835 | 219,176 |

Source: Pfizer Inc. financial statements and Lark Research estimates and projections.

*Table 4*

**Pfizer Inc.**

Historical and Projected Consolidated Statements of Cash Flows – 2023-2025F

($ mil.)

| | Historical 12 Months 31-Dec-23 | Projected 3 Months 31-Mar-24 | Projected 3 Months 30-Jun-24 | Projected 3 Months 29-Sep-24 | Projected 3 Months 31-Dec-24 | Projected 12 Months 31-Dec-24 | Projected 12 Months 31-Dec-25 |
|---|---|---|---|---|---|---|---|
| **Operating Activities** | | | | | | | |
| Net inc. bef. alloc. to n/c. interests | 2,158 | 1,436 | 1,430 | 2,043 | 2,014 | 6,923 | 7,793 |
| Discontinued operations, net of tax | (15) | 0 | 0 | 0 | 0 | 0 | 0 |
| NI - cont. oper. bef. alloc. to n/c int. | 2,172 | 1,436 | 1,430 | 2,043 | 2,014 | 6,923 | 7,793 |
| Adjustments | | | | | | | |
| Depreciation & amortization | 6,290 | 1,628 | 1,640 | 1,651 | 1,663 | 6,581 | 6,761 |
| Asset write-offs and impairments | 3,408 | 0 | 0 | 0 | 0 | 0 | 0 |
| Deferred taxes from cont. operations | (3,442) | (5) | 0 | 0 | 0 | (5) | 0 |
| Share-based compensation expense | 525 | 180 | 275 | 275 | 275 | 1,005 | 1,005 |
| Benefit plan contr. in exc. of exp./inc. | (787) | 0 | 0 | 0 | 0 | 0 | 0 |
| COVID-19 prod. write-offs & rel. chgs., | 6,199 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other adjustments, net | (3,492) | (20) | (21) | (22) | (23) | (87) | (102) |
| Other asset/liab. chgs., net of acq./div. | (2,172) | (5,511) | 3,904 | (2,282) | (1,940) | (5,830) | (1,065) |
| Net cash from operating activities | 8,700 | (2,293) | 7,227 | 1,666 | 1,988 | 8,587 | 14,391 |
| **Investing Activities** | | | | | | | |
| Purchases of PP&E | (3,907) | (1,000) | (1,000) | (1,000) | (1,000) | (4,000) | (4,000) |
| Net proceeds (redemp./sales) of S-T inv. | 13,464 | 137 | 0 | 0 | 0 | 137 | 0 |
| Purchases of long-term inv. | (204) | (100) | (100) | (100) | (100) | (400) | (400) |
| Proceeds from redemp. of L-T inv. | 1,979 | 96 | 96 | 96 | 96 | 384 | 384 |
| Acq. of businesses, net of cash acq. | (43,430) | 0 | 0 | 0 | 0 | 0 | 0 |
| Other investing activities, net | (179) | 0 | 0 | 0 | 0 | 0 | 0 |
| Net cash from investing activities | (32,276) | (867) | (1,004) | (1,004) | (1,004) | (3,879) | (4,016) |
| **Financing Activities** | | | | | | | |
| Net proceeds (payments) on S-T debt | 7,683 | 3,321 | (3,853) | 1,720 | 1,394 | 2,582 | (553) |
| Net proceeds (payments) on L-T debt | 28,262 | (139) | 8 | 8 | 8 | (115) | 0 |
| Cash dividends paid | (9,247) | (2,373) | (2,378) | (2,390) | (2,386) | (9,527) | (9,822) |
| Other financing activities, net | (631) | 0 | 0 | 0 | 0 | 0 | 0 |
| Net cash from financing activities | 26,066 | 808 | (6,223) | (662) | (984) | (7,060) | (10,375) |
| Effect of exch. rate changes | (40) | (1) | 0 | 0 | 0 | (1) | 0 |
| Net change in cash & restr. cash | 2,448 | (2,353) | (0) | 0 | (0) | (2,353) | 0 |
| Beginning cash & restr. cash | 468 | 2,917 | 564 | 564 | 564 | 2,917 | 564 |
| **Ending cash & restr. cash** | 2,917 | 564 | 564 | 564 | 564 | 564 | 564 |

Source: Pfizer Inc. financial statements and Lark Research estimates and projections.

*Table 5*

**Pfizer Inc.**

Historical and Projected Consolidated Revenues – 2023-2025F

($ mil.)

| | Historical 12 Months 31-Dec-23 | Projected 3 Months 31-Mar-24 | Projected 3 Months 30-Jun-24 | Projected 3 Months 29-Sep-24 | Projected 3 Months 31-Dec-24 | Projected 12 Months 31-Dec-24 | Projected 12 Months 31-Dec-25 |
|---|---|---|---|---|---|---|---|
| **Total Revenues** | 58,496 | 13,950 | 14,160 | 15,820 | 16,365 | 60,295 | 64,105 |
| **Global Biopharmaceuticals** | 57,186 | 13,370 | 13,580 | 15,240 | 15,785 | 57,975 | 61,685 |
| **Primary Care** | 30,589 | 6,015 | 6,010 | 7,465 | 7,770 | 27,260 | 28,210 |
| COMIRNATY direct sales & alliance rev. | 11,220 | 500 | 500 | 2,000 | 2,000 | 5,000 | 5,400 |
| Eliquis | 6,747 | 1,800 | 1,650 | 1,450 | 1,600 | 6,500 | 6,500 |
| Prevnar family | 6,440 | 1,600 | 1,625 | 1,650 | 1,675 | 6,550 | 6,900 |
| PAXLOVID | 1,279 | 600 | 700 | 800 | 900 | 3,000 | 3,000 |
| Nurtec ODT (rimegepant)/Vydura | 928 | 270 | 290 | 320 | 350 | 1,230 | 1,230 |
| Abrysvo | 890 | 500 | 500 | 500 | 500 | 2,000 | 2,200 |
| Other primary care | 3,085 | 745 | 745 | 745 | 745 | 2,980 | 2,980 |
| **Specialty Care** | 14,970 | 3,965 | 4,015 | 4,065 | 4,115 | 16,160 | 16,160 |
| Vyndaqel family | 3,321 | 1,000 | 1,050 | 1,100 | 1,150 | 4,300 | 4,300 |
| Xeljanz | 1,703 | 500 | 500 | 500 | 500 | 2,000 | 2,000 |
| Enbrel (Outside the U.S. and Canada) | 830 | 210 | 210 | 210 | 210 | 840 | 840 |
| Sulperazon | 757 | 140 | 140 | 140 | 140 | 560 | 560 |
| Other specialty care | 8,360 | 2,115 | 2,115 | 2,115 | 2,115 | 8,460 | 8,460 |
| **Oncology** | 11,627 | 3,390 | 3,555 | 3,710 | 3,900 | 14,555 | 17,315 |
| Ibrance | 4,753 | 1,150 | 1,150 | 1,150 | 1,150 | 4,600 | 4,600 |
| Xtandi alliance revenues | 1,191 | 300 | 300 | 300 | 300 | 1,200 | 1,200 |
| Inlyta | 1,036 | 260 | 260 | 260 | 260 | 1,040 | 650 |
| Seagen portfolio | 119 | 550 | 710 | 840 | 1,000 | 3,100 | 5,890 |
| Other oncology | 4,530 | 1,130 | 1,135 | 1,160 | 1,190 | 4,615 | 4,975 |
| **Business Innovation** | 1,309 | 330 | 330 | 330 | 330 | 1,320 | 1,320 |
| **Royalty Income** | | 250 | 250 | 250 | 250 | 1,000 | 1,100 |

Source: Pfizer Inc. financial statements and Lark Research estimates and projections.

My 12-month price target of $30 applies a one-year forward multiple of 12.5 times (slightly above the current one-year forward multiple of 12.2 times) to projected 2025 adjusted (non-GAAP) EPS of $2.36. (The price target's forward multiple on projected 2025 GAAP EPS of $1.32 is 23.0 times.)

Along with the 6.3% dividend yield, the price target equates to a potential total return of 18.8% at the current quote. Consequently, I am assigning a performance rating of "1" (Buy) on Pfizer's stock.

As discussed, the primary risk facing investors over the long term is whether Pfizer can sustain or grow its revenues and profits to offset the losses from patent expirations. While the pipeline looks promising with numerous opportunities to launch new therapies and several potential blockbusters, statistically we know that many of these will not pan out and those that will are years away from their yet-to-be determined peak revenue potential. So it is difficult at this time to see exactly how the company will be able to offset the LOE revenue losses. A long-term investment in Pfizer therefore requires some faith in the company and its ability to execute successfully.

Another major risk is the downward pressure on pricing that has been occurring across the industry as more payers and patients look for ways to reduce pharmaceutical costs. As long as the economy does not slide into a long-lasting recession (or inflation rise sufficiently to put more pressure on their budgets), Pfizer should be able to manage through these pricing pressures over time.

These concerns are already reflected in the low (non-GAAP) valuation multiples that the market has assigned to Pfizer's stock and those of its non-GAAP peers. For now, the market has struck a balance between the downside and upside risks facing these pharmaceutical stocks. If over the next few years, Pfizer and the industry appears to navigating successfully through these exclusivity and regulatory challenges, their stocks should outperform the broader market.

**Conflicts of Interest Disclosure:**

The author has no position in the publicly traded securities of Pfizer Inc. (PFE).

**Lark Research ratings methodology:**

The **Performance** rating is scaled from 1 to 5, with a rating of 1 indicating "buy" vs. the broader market; "2" indicating outperform; "3" is neutral; "4" is underperform and a rating of 5 indicates "sell" vs. the broader market. The rating anticipates this performance over a 12-month period.

The **Safety** rating is scaled from A to E, with a rating of A indicating the highest safety profile and a rating of E indicating the lowest safety. E-rated investments carry the highest risk and face a high probability of significant loss.

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