

Pfizer

Thoughts Post the 4Q23 Call

Reiterate Rating: NEUTRAL | PO: 35.00 USD | Price: 27.02 USD

Puts and takes on 2024 outlook, a year of execution

PFE shares traded well most of today, but finished down (-2%; DRG; flat) given mixed 40 results (rev: -\$509M; EPS: +\$0.30) and unchanged 2024 guidance (see Pfizer 4Q23 initial thoughts). As expected, Pfizer provided further commentary on the commercial reorg plans with a focus on the new launch portfolio, most notably Seagen products. Indeed, the pro-forma U.S. oncology salesforce is triple the size of the former Seagen's, and 2024 contribution from Seagen assets is expected to be \$3.1B (BofA \$3.2B; cons \$3.0B) which has good upside potential, in our view. Pfizer highlighted 6 launches as major growth drivers (Nurtec/Vydura, Oxbryta, Abrysvo, Elrexfio, Velsipity, and Litfulo) and two label expansions (Padcev in 1L bladder cancer and Xtandi in nmCSPC with higher-risk BCR) that serve as significant offsets in the 2025-2030 LOE period. Of these, we are most optimistic about Nurtec ODT (raising 2024 BofA sales to \$1.4B vs prior \$1.3B / cons \$1.3B on PCP prescriber growth, which squares with observations from our Brandlmpact migraine market data) and Abrysvo (raising 2024 BofA sales to \$1.6B vs prior \$1.0B / cons \$1.2B on label expansion) due to underlying market dynamics and a primary care focus. On the other hand, the outlook for Prevnar and Ibrance is more muted given competition and market maturation. Turning to financials, Pfizer remains focused on margin expansion through cost-cutting (from guided ~\$70% in 2024 back to pre-COVID ~80%), de-levering, and continuing to grow dividends with plans for a share repurchase program. While we like Pfizer's strategy to overcome upcoming LOEs with new launches and bolt-on assets, the next few quarters will be critical in assessing real product demand and the magnitude of LOE offset. Reiterate Neutral, \$35 PO.

Few catalysts in 2024 are noteworthy

While we view 2024 as a year of commercial execution, we'd highlight a few pipeline updates: 1) vepdegestrant (ARV-471 protein degrader) in 2L HR+ mBC (VERITAC-2), 2) Braftovi in 1L BRAF CRC (BREAKWATER), 3) FDA regulatory decision for maristacimab in hemophilia A/B (4Q24), and 4) initial PK data for once-daily danuglipron for obesity (1H24). Notably, VERITAC-2 could help bridge gap in breast cancer as competitors (Lilly's Verzenio, Novartis' Kisqali), in our view, have begun to erode Ibrance market share.

Model Changes

We now forecast 2024 total revenue / EPS of \$59.3B (prior \$61.1B) / \$2.35 (prior \$2.10).

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Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	6.58	1.85	2.35	2.80	2.95
GAAP EPS	6.01	1.84	1.57	1.99	2.13
EPS Change (YoY)	46.9%	-71.9%	27.0%	19.1%	5.4%
Consensus EPS (Bloomberg)			2.27	2.78	2.96
DPS	1.57	1.77	1.85	1.93	2.01
Valuation (Dec)					
P/E	4.1x	14.6x	11.5x	9.7x	9.2x
GAAP P/E	4.5x	14.7x	17.2x	13.6x	12.7x
Dividend Yield	5.8%	6.6%	6.8%	7.1%	7.4%
EV / EBITDA*	3.8x	11.7x	9.2x	7.9x	7.6x
Free Cash Flow Yield*	16.9%	3.7%	10.3%	11.1%	11.3%
* For full definitions of <i>IQ</i> method sm measures, see page 5.					

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Refer to important disclosures on page 7 to 9. Analyst Certification on page 4. Price
Objective Basis/Risk on page 4.

Timestamp: 30 January 2024 05:25PM EST

30 January 2024

Equity

Key Changes		
(US\$)	Previous	Current
2024E Rev (m)	61,060.3	59,278.2
2025E Rev (m)	62,898.0	61,910.1
2026E Rev (m)	64,784.3	63,722.8
2024E EPS	2.10	2.35
2025E EPS	2.50	2.80
2026E EPS	3.00	2.95
2024E EBITDA (m)	18,456.1	20,019.4
2025E EBITDA (m)	21,293.5	23,178.0
2026E EBITDA (m)	24,779.9	24,334.1

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Stock Data

Price	27.02 USD
Price Objective	35.00 USD
Date Established	13-Dec-2023
Investment Opinion	B-2-7
52-Week Range	25.76 USD - 44.46 USD
Mrkt Val (mn) / Shares Out	154,257 USD / 5,709.0
(mn)	
Free Float	100.0%
Average Daily Value (mn)	1303.92 USD
BofA Ticker / Exchange	PFE / NYS
Bloomberg / Reuters	PFE US / PFE.N
ROE (2024E)	13.6%
Net Dbt to Eqty (Dec-2023A)	17.7%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment

iQprofile[™] Pfizer

<i>iQ</i> method [™] – Bus Performance*					
(US\$ Millions)	2022A	2023A	2024E	2025E	2026
Return on Capital Employed	25.3%	6.8%	9.1%	10.6%	11.0%
Return on Equity	43.6%	11.0%	13.6%	15.4%	15.39
Operating Margin	42.6%	19.8%	26.8%	30.4%	31.29
Free Cash Flow	26,031	5,652	15,853	17,075	17,462
iQmethod [™] – Quality of Earnings*					
(US\$ Millions)	2022A	2023A	2024E	2025E	2026
Cash Realization Ratio	0.8x	0.8x	1.5x	1.3x	1.3
Asset Replacement Ratio	0.6x	0.7x	0.9x	1.0x	1.0
Tax Rate	11.7%	8.8%	15.0%	15.0%	15.09
Net Debt-to-Equity Ratio	13.7%	17.7%	10.7%	3.5%	-2.99
Interest Cover	NA	NA	NA	NA	N/
Income Statement Data (Dec)					
(US\$ Millions)	2022A	2023A	2024E	2025E	2026
Sales	100,331	58,496	59,278	61,910	63,723
% Change	23.7%	-41.7%	1.3%	4.4%	2.99
Gross Profit	66,235	34,507	41,238	44,804	46,712
% Change	31.4%	-47.9%	19.5%	8.6%	4.39
EBITDA	47,842	15,677	20,019	23,178	24,334
% Change	35.0%	-67.2%	27.7%	15.8%	5.09
Net Interest & Other Income	(35)	(24)	(47)	(56)	(67
Net Income (Adjusted)	37,722	10,562	13,416	15,988	16,84
% Change	47.5%	-72.0%	27.0%	19.2%	5.4%
Free Cash Flow Data (Dec)					
(US\$ Millions)	2022A	2023A	2024E	2025E	2026
Net Income from Cont Operations (GAAP)	37,766	10,566	13,489	16,018	16,892
Depreciation & Amortization	5,064	4,095	4,149	4,334	4,46
Change in Working Capital	(4,456)	(6,234)	2,073	872	53
Deferred Taxation Charge	(3,764)	4,796	(73)	(246)	(170
Other Adjustments, Net	(5,343)	(4,645)	68	432	20
Capital Expenditure	(3,236)	(2,925)	(3,853)	(4,334)	(4,461
Free Cash Flow	26,031	5,652	15,853	17,075	17,462
% Change	-13.8%	-78.3%	180.5%	7.7%	2.39
Share / Issue Repurchase	(2,000)	1,000	1,000	1,000	1,000
Cost of Dividends Paid	(8,983)	(10,105)	(10,562)	(11,021)	(11,480
Change in Debt	(3,516)	(3,298)	(3,298)	(3,298)	(3,298
Balance Sheet Data (Dec)					
(US\$ Millions)	2022A	2023A	2024E	2025E	2026
Cash & Equivalents	22,732	15,351	18,366	22,196	25,917
Trade Receivables	10,952	8,260	8,371	8,743	8,999
Other Current Assets	17,575	12,901	11,223	11,209	11,36
Property, Plant & Equipment	16,274	17,444	18,926	20,164	21,439
Other Non-Current Assets	129,670	120,874	119,128	117,998	116,798
Total Assets	197,203	174,831	176,014	180,309	184,513
Short-Term Debt	2,945	2,945	2,945	2,945	2,94
Other Current Liabilities	39,193	26,837	27,242	28,136	28,85
Long-Term Debt	32,884	29,586	26,288	22,990	19,69
Other Non-Current Liabilities	26,266	18,096	18,338	19,152	19,713
Total Liabilities	101,288	77,464	74,813	73,223	71,20
Total Equity	95,917	97,318	101,152	107,037	113,315
Total Equity & Liabilities	197,205	174,781	175,965	180,260	184,516

Company Sector

Pharmaceuticals

Company Description

PFE is a global biopharmaceutical company with a diversified portfolio of products and pipeline candidates. The company is focused on advancing—discovering, developing, licensing, marketing—drugs for oncology, rare diseases, infection and immunology, infectious diseases, hospital settings, and other indications.

Investment Rationale

Our Neutral thesis for Pfizer is based on 1) the upcoming LOE period in 2025+ which will result in a \$17B decrease to revenues, 2) erosion of Comirnaty and Paxlovid sales, and 3) the lack of a clear line of sight on BD. While we argue Pfizer will be able to address the LOE concerns, growth in the back half of the decade is unclear.

Stock Data

Average Daily Volume 48,257,680

Quarterly Earnings Estimates

	2023	2024
Q1	1.23A	0.49E
Q2	0.67A	0.45E
Q3	-0.17A	0.49E
Q4	0.10A	0.89E



Exhibit 1: Summary of Pfizer model changes

We updated forecasts for 2024 and 2025.

	202	24E	202	25E
\$ in millions	Prior	Current	Prior	Current
Prevnar	\$7,750	\$6,972	\$8,244	\$7,413
Ibrance	4,699	4,547	4,496	4,350
Eliquis	6,317	6,334	6,408	6,419
Xeljanz	1,631	1,705	1,495	1,559
Vyndaqel	3,895	3,895	4,387	4,387
Comirnaty	3,721	3,721	3,277	3,277
Paxlovid	2,741	2,741	2,437	2,437
Total Revenue	\$61,060	\$59,278	\$62,898	\$61,910
COGS	21,851	18,040	19,603	17,106
Gross Profit	39,209	41,238	43,295	44,804
SG&A	14,654	14,820	15,096	14,858
R&D	12,273	12,448	13,209	13,001
Operating Profit	14,182	15,870	16,891	18,844
Tax	2,127	2,380	2,534	2,827
Non-GAAP Net Income	12,004	13,443	14,297	15,961
Non-GAAP EPS - Diluted	\$2.10	\$2.35	\$2.50	\$2.80
Shares Outstanding - Diluted	\$7,750	\$6,972	\$8,244	\$7,413

Source: BofA Global Research

BofA GLOBAL RESEARCH

Abbreviations:

1L: first-line

2L+: second-line plus

RSV: Respiratory Syncytial Virus ADC: antibody drug conjugate

LOE: loss of exclusivity

SCD: sickle cell disease

nmCSPC: non-metastatic castration sensitive prostate cancer

BCR: biochemical recurrence mBC: metastatic breast cancer

BRAF: B-Raf

CRC: colorectal cancer

HR+: hormone receptor positive

PK: pharmacokinetics

FDA: Food and Drug Administration

PCP: primary care physician



Price objective basis & risk

Pfizer (PFE)

Our \$35/share for Pfizer is based on a 50/50 blended average of our discounted cash flow (DCF) analysis and P/E multiple based on the large cap global therapeutics group. For our DCF, we use a weighted-average cost of capital (WACC) of 7% and 1% terminal growth for an intrinsic value of \$47/share. Our P/E analysis assumes a 10x multiple of our 2025 EPS estimate, which yields a \$24 intrinsic value.

Downside risks: 1) sales downside, 2) inability for pipeline to overcome patent loss of exclusivities (LOEs) after 2025, 3) M&A transactions that are perceived to be value destructive.

Analyst Certification

I, Geoff Meacham, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Biopharmaceuticals Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	89bio, Inc	ETNB	ETNB US	Geoff Meacham
	Acumen Pharma	ABOS	ABOS US	Geoff Meacham
	Agios Pharmaceuticals	AGIO	AGIO US	Greg Harrison, CFA
	Amylyx Pharmaceuticals	AMLX	AMLX US	Geoff Meacham
	BioMarin	BMRN	BMRN US	Geoff Meacham
	BioXcel Therapeutics	BTAI	BTAI US	Greg Harrison, CFA
	BridgeBio Pharma	BBIO	BBIO US	Greg Harrison, CFA
	Caribou	CRBU	CRBU US	Geoff Meacham
	CRISPR Therapeutics	CRSP	CRSP US	Geoff Meacham
	Eli Lilly and Company	LLY	LLY US	Geoff Meacham
	Gilead Sciences Inc.	GILD	GILD US	Geoff Meacham
	HUTCHMED	HCM	HCM US	Alec W. Stranahan
	Immatics	IMTX	IMTX US	Alec W. Stranahan
	Insmed Incorporated	INSM	INSM US	Jason Zemansky
	Intellia Therapeutics	NTLA	NTLA US	Greg Harrison, CFA
	Janux Therapeutics	JANX	JANX US	Geoff Meacham
	Keros	KROS	KROS US	Greg Harrison, CFA
	Kiniksa Pharmaceuticals, Ltd.	KNSA	KNSA US	Geoff Meacham
	Krystal Biotech	KRYS	KRYS US	Alec W. Stranahan
	Kura Oncology	KURA	KURA US	Jason Zemansky
	Liquidia Corporation	LQDA	LQDA US	Greg Harrison, CFA
	Lyell Immunopharma	LYEL	LYEL US	Geoff Meacham
	MeiraGTx	MGTX	MGTX US	Alec W. Stranahan
	Merck & Co.	MRK	MRK US	Geoff Meacham
	Mineralys Therapeutics	MLYS	MLYS US	Greg Harrison, CFA
	Neumora Therapeutics	NMRA	NMRA US	Geoff Meacham
	Rani Therapeutics	RANI	RANI US	Geoff Meacham
	Regenxbio, Inc.	RGNX	RGNX US	Alec W. Stranahan
	Revolution Medicines	RVMD	RVMD US	Alec W. Stranahan
	Rocket Pharmaceuticals, Inc.	RCKT	RCKT US	Greg Harrison, CFA
	Royalty Pharma	RPRX	RPRX US	Geoff Meacham
	Sana Biotechnology	SANA	SANA US	Geoff Meacham
	SpringWorks	SWTX	SWTX US	Alec W. Stranahan
	Syndax Pharmaceuticals	SNDX	SNDX US	Jason Zemansky
	Travere Therapeutics Inc	TVTX	TVTX US	Greg Harrison, CFA
	Turnstone Biologics	TSBX	TSBX US	Geoff Meacham
	Vertex Pharmaceuticals Inc.	VRTX	VRTX US	Geoff Meacham
	Werewolf Therapeutics	HOWL	HOWL US	Jason Zemansky



US - Biopharmaceuticals Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Xencor	XNCR	XNCR US	Alec W. Stranahan
NEUTRAL				
	AbbVie	ABBV	ABBV US	Geoff Meacham
	Alector, Inc	ALEC	ALEC US	Greg Harrison, CFA
	Amgen Inc.	AMGN	AMGN US	Geoff Meacham
	Arcus Biosciences	RCUS	RCUS US	Jason Zemansky
	Beam Therapeutics	BEAM	BEAM US	Greg Harrison, CFA
	Biogen Inc.	BIIB	BIIB US	Geoff Meacham
	Bristol-Myers Squibb	BMY	BMY US	Geoff Meacham
	Cytokinetics, Incorporated	CYTK	CYTK US	Jason Zemansky
	Editas Medicine	EDIT	EDIT US	Greg Harrison, CFA
	Erasca	FRAS	ERAS US	Alec W. Stranahan
	Esperion	ESPR	ESPR US	Jason Zemansky
	Exscientia	EXAI	EXALUS	Alec W. Stranahan
	IGM Biosciences	IGMS	IGMS US	Greg Harrison, CFA
	Johnson & Johnson	JNJ	JNJ US	Geoff Meacham
	Kymera Therapeutics	KYMR	KYMR US	Geoff Meacham
	Moderna	MRNA	MRNA US	Geoff Meacham
	Pfizer	PFE	PFE US	Geoff Meacham
	Recursion Pharmaceuticals, Inc.	RXRX	RXRX US	Alec W. Stranahan
	Tyra Biosciences	TYRA	TYRA US	Greg Harrison, CFA
	Vir	VIR	VIRUS	Geoff Meacham
	Y-mAbs Therapeutics, Inc	YMAB	YMAB US	Alec W. Stranahan
	r-maus merapeducs, inc	TIVIAD	TIVIAD US	AIEC W. Strattatian
UNDERPERFORM				
	AlloVir, Inc.	ALVR	ALVR US	Jason Zemansky
	CureVac	CVAC	CVAC US	Geoff Meacham
	Day One Biopharmaceuticals	DAWN	DAWN US	Alec W. Stranahan
	LianBio	LIAN	LIAN US	Geoff Meacham
	Novavax	NVAX	NVAX US	Alec W. Stranahan
	Regeneron Pharmaceuticals Inc.	REGN	REGN US	Geoff Meacham
	Reneo Pharmaceuticals	RPHM	RPHM US	Jason Zemansky
	TG Therapeutics	TGTX	TGTX US	Alec W. Stranahan
	United Therapeutics Corporation	UTHR	UTHR US	Greg Harrison, CFA
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IQmethod[™] Measures Definitions

Business Performance	Numerator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) \times (1 - Tax Rate) + Goodwill Amortization

Return On Equity Net Income
Operating Margin Operating Profit

Earnings Growth Expected 5 Year CAGR From Latest Actual Free Cash Flow Cash Flow From Operations — Total Capex

Quality of Earnings Numerator

Cash Realization Ratio Cash Flow From Operations
Asset Replacement Ratio Capex
Tax Rate Tax Charge

Interest Cover

Valuation Toolkit Numerator

Price / Earnings Ratio Current Share Price
Price / Book Value Current Share Price
Dividend Yield Annualised Declared

Dividend Yield Annualised Declared Cash Dividend
Free Cash Flow Yield Cash Flow From Operations – Total Capex

Enterprise Value / Sales EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

EV / EBITDA Enterprise Value

Denominator

Total Assets - Current Liabilities + ST Debt + Accumulated Goodwill

Amortization Shareholders' Equity

Sales N/A N/A

Denominator

Net Income Depreciation Pre-Tax Income Total Equity Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified) Shareholders' Equity / Current Basic Shares

Current Share Price

 ${\sf Market\ Cap = Current\ Share\ Price \times Current\ Basic\ Shares}$

Sales

Basic EBIT + Depreciation + Amortization



Valuation Toolkit Numerator Denominator

Manethod Suis the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

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Disclosures

Important Disclosures

Pfizer (PFE) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships R1	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships R1	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Investment rating Total return expectation (within 12-month period of date of initial rating) Ratings dispersion guidelines for coverage cluster^{R2}

Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Inderperform	N/A	≥ 20%

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