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PRESENTATION

Terence C. Flynn - *Goldman Sachs Group Inc., Research Division - MD*

Great. Good afternoon, everybody. Thank you for joining us. I'm Terence Flynn, the biopharma analyst at Goldman Sachs.

I'm very pleased to welcome Pfizer for this session. Joining us from the company is Chairman and CEO, Albert Bourla. Albert, thank you very much for joining us today, really appreciate your time. And thank you for everything that the company is doing with respect to COVID-19 on both the vaccine and treatment front. I know it's a tremendous effort, and we appreciate everything you're doing.

Albert Bourla - *Pfizer Inc. - Chairman & CEO*

Thank you very much, Terence, and it's a great privilege and a great responsibility these days to work on a solution.

QUESTIONS AND ANSWERS

Terence C. Flynn - *Goldman Sachs Group Inc., Research Division - MD*

Great. Maybe to get started, COVID-19 is obviously going to have near and long-ranging impacts on the system, companies' business models, from delivery of care, clinical trial conduct, supply chain. Any preliminary perspective that you can share from kind of where you sit in terms of how this is going to change or evolve, both the business and your strategy, as you approach the forward?

Albert Bourla - *Pfizer Inc. - Chairman & CEO*

Actually, I was reading earlier today a report that you circulated about the -- your assessment about how that could change the industry, and I pretty much agree with everything that you said. I think there are a lot of trends that are emerging as a result of COVID. I think the fundamental that will impact our industry, it is the fact that, right now, the hopes of billions of people, hundreds of millions of businesses, hundreds of governments are on this industry to find a solution. And that brings, obviously, the value proposition in the forefront of society. And that was not the case before because there were a lot of lack of popularity and not very good reputation, and now is a great opportunity to, of course, to reset all this. I won't declare any victory yet because I think reputation comes in drops, but you can lose it in buckets. So it's going to be much slower to gain back and a mistake can also throw it out there. But I'm very optimistic with the way that I see the industry is moving. That set aside of the reputation of the industry, I think that brings also a lot of changes. Some that will be very positive. Some will be more or less on the negative side. I think local governments will likely value much more innovation. You can see, I think, much more premium based on the innovation right now. On the other hand, I think there will be some fear that will drive more nationalization or in-shoring, onshoring type of supply chains. That's a mistake. I think it's very complicated with supply chains, highly sophisticated. And by the way, they were not on the -- they didn't present any issue, but I think they were tested very well right now.

I think on the pricing, which is a question many people are asking me, I certainly see that there is a change, a shift right now, particularly in the U.S. And I can see that both from people that were very big fan of the innovations, I mean, politicians or public servants that they were in front of -- in favor of the innovation, but they were tempering their speech. Now they are much more outspoken there because they see the value on the

population. Also, I see it in people that were very strict critics of us, and they were criticizing a lot of the interest. I think they are slowing down their criticism now. And all of that has to do with the fact that there is the reputation, as I said, and the popularity is going up in the eyes on the constituents.

I can see structural changes, I think, in the way that we do research, I think with digital. Pretty soon, the question why on the COVID will come. If we can make vaccines, if we prove that you can make vaccines in less than a year, okay, why can't we do that with other medicines, with cancer medicines? And then I think there is -- I think that will give a very big boost in the way that life cycles of the productivity R&D will enhance. And I can go on. I think the post-COVID world will be different and hopefully better.

Terence C. Flynn - *Goldman Sachs Group Inc., Research Division - MD*

Yes. Great. Well, that's a great place to start. I guess now that we're into June, a lot of states are starting to reopen. Other countries are reopening. You guys have a big global presence, obviously. You gave -- you reiterated your expectations for guidance on your first quarter call. Now that we're into June, can you just share a little bit about what you're seeing in some states and countries are reopening across the globe?

Albert Bourla - *Pfizer Inc. - Chairman & CEO*

Yes. Everything we see, and that includes not only, let's say, the things that everybody is seeing, but also we are watching on our performance in the market month after month, et cetera. It's in line with what we were expecting when we reiterated our guidance, including absorbing significant amount for foreign exchange. No change. I think we've had a very, very good quarter in the first one, and we said the second is the one that will be the bottom of the crisis. And I think that will be the case but still is holding very nicely, I think. And then we hope that third and fourth will come back. The leading indicator, which is visits to physicians, new patients, scripts, et cetera, et cetera, already started to show a positive trend. And we are still in the second quarter, right? So the impact of that, I think -- and also, there is a lot of absorptions of inventories that maybe hospitals or other organizations built. We never had stock built in the first quarter at the wholesalers where we control it, nothing. It was very, very small. So all the performance has nothing to do with inventories that we control. But I suspect that maybe hospitals or end users, they were building some more, which I think will go away from the second quarter, and then we'll have the full impact we are certain for.

Terence C. Flynn - *Goldman Sachs Group Inc., Research Division - MD*

Okay. Great. Maybe the last COVID topic is just on the vaccine front. You've been partnered with BioNTech, making a lot of progress. Maybe just remind us at a high level the approach that you guys are taking and how it differs from some of the other companies. And then just any update in terms of when we might see the initial Phase 1 data? I know a lot of focus on that front as well.

Albert Bourla - *Pfizer Inc. - Chairman & CEO*

Yes. Thank you. There are several efforts right now for vaccines, as you know. What I know in the clinic, at least in the U.S., Europe, there are 3 companies -- 4, and there are 2 different technologies. We are using an RNA, modified RNA technology. I know that there is -- Moderna also is using the same technology. We are using 4 different approaches that include 2 different antigens, one antigen that we're using it is the entire spike protein, which is, I think, the same like the Moderna is using. Then we are using also the -- what we call the RBD, which is the head of the spike, the antigen, so we're using both, just in case. And also, we are using 3 different constructs. We are using modified RNA. We are using unmodified enhanced RNA, and we are using self-replicating, so not everything works the same, I can tell you that, as we are in the clinic. So I think doesn't matter, the technology. I think you can have good or better results with the same technology. And we are well into humans now and are testing all of that, and we will continue. We are about to pick 2 of the 4 so that we can continue. We are working also on the dose.

I want -- as regards data, we keep seeing data, both from preclinical data and clinical data from the humans. I will not make any comment on the data, what we see right now. We made the pledge that we will not speak publicly about how good or bad the vaccine is without the same day publishing data in peer magazines, but we do have plans to publish data. So once we publish the first data, we will speak about that.

A general comment now about the vaccine -- and indeed, as I said, at the end of June, we will have very good visibility of a lot of data. I want to reiterate again everything what I have said so far publicly for this vaccine. I just said that there are 4. We are going to pick 2. We are planning, and we are in very good collaboration with FDA to run large-scale trials, July, August.

If things are -- if things go well, and it is so far, but you never know until the end. It's a very complicated process. But if things go well, we think that we will have enough data that will make us feel comfortable about the safety and efficacy. And as a result, we'll submit to FDA so that they can see if they feel comfortable with efficacy and safety in the October time frame. So I think we can submit earlier to the FDA. So if that's the case, so -- and FDA or EMA or others and ourselves, I repeat, because we're a very big organization, we're very careful with these things, we feel good about safety and efficacy. We will have manufacturing -- we will have manufactured doses in October. So we will be able, in case you get either accelerated approval or emergency use approval or testing on that, we could provide millions of doses this year and hundreds of millions of doses next year.

Again, I don't say how many exactly because I know others have spoken because a lot depends what will be the dose. We are taking those variations at 1 to 10. If we take the 10, it's less than if we take the one. We are trying to see if we can use multi-dose vials, if that could be acceptable, for example, by U.S. or different countries as we speak with them. So that will define the quantities. But definitely, it's in the hundreds of millions in the worst-case scenario.

Terence C. Flynn - *Goldman Sachs Group Inc., Research Division - MD*

Yes. What -- and just a follow-up on the -- in terms of the amount of data, it sounds like the discussions are real time with regulators here. Obviously, safety is the most important first thing to check. But in terms of efficacy, do you have any preliminary sense of kind of what they're looking for? Is this going to be tighter level data like immunogenicity? Or are they looking to see actual kind of infection rates from a study, maybe somewhere in between?

Albert Bourla - *Pfizer Inc. - Chairman & CEO*

I can't talk about for them, right? I think they are independent. And frankly, I think what they will do, as always, they will have a holistic view of the situation. They will see how much efficacy data has, how much in primates, how much in humans, what is the titles. I think they will see everything, and they will make a decision themselves. I don't want to speak about them. We are ready to go all the way to prove the, say, the efficacy in large-scale trials, if that is required. And this is what we're going to run.

Terence C. Flynn - *Goldman Sachs Group Inc., Research Division - MD*

Okay. And would you -- you mentioned that picking 2 of the 4, would then there be another choice where you choose 1 of those 2 to ramp up commercially if everything goes well? Or do you think you could ultimately maybe have 2 vaccines because, obviously, there's great demand across the board? Or would you focus all of your efforts on one of those given scale?

Albert Bourla - *Pfizer Inc. - Chairman & CEO*

Yes. I think let me comment. I think will be likely huge demand. And no matter how many companies will be able to cross the line, still the demand will be higher than an offer. That's my assessment right now, particularly for the first 12 months, let's say, '21.

The second is likely we'll pick 1 of the 2 early enough, and this is the one that we will push in our clinical trials. And that, we will do because I think 2 or 1 is the same in terms of manufacturing, right? So I think we will exhaust our manufacturing capacity relevant if we do 1 or 2. But we are going to work on the next generation that already started right now but will not be the first wave and much better, hopefully. But likely, we will come later in the game, let's say, in '21 late. But right now, the things that we're speaking, we are speaking about likely one that we will run into a very big clinical trial after doing all these experiments and selecting different variations that will give us safety and efficacy data.

Terence C. Flynn - *Goldman Sachs Group Inc., Research Division - MD*

Okay. And maybe the last one before we go onto another topic is just how do you think about -- obviously, there's a huge focus on treatments in vaccines in terms of the public health, et cetera, implications, how do you think about any longer-term commercial opportunity here beyond the initial needs as you think about the kind of puts and takes on the commercial side of the equation?

Albert Bourla - *Pfizer Inc. - Chairman & CEO*

Yes. One to start is that from day 1, we said this is not business as usual. So our decision to go into the vaccine or not was not driven at all by a return on investment. And I made it very clear to everyone, okay? It is return on effort. So what we are going to invest in, it is things that, we believe, the effort could bring results, irrelevant if we are going to get our money back or not. And actually, one of the reasons why we are the only company that didn't take any money from government, the U.S. government, and they were plenty available, as you can read, billions here and there or any other government per se, it is because we felt that we can move much faster if we're alone because when you take money, of course, you have to discuss how you spend it, how you progress, how you do this, how do you do that. And given that the goal was for return on effort, so we didn't factor in are we going to take money or not.

Now as a result, the effort, the focus of me was always let's bring a vaccine, and then we'll speak later. So I wasn't even thinking about commercialization and if it's commercial between now or later. But everybody is asking, so I start thinking about it. And again, what I can tell it is that I do not think that when the vaccine is available if the vaccine is available and when. And by the way, I do feel that it's more a question of when rather than if, but I say both, to be on the safe side, if and when. Likely, the demand will be so big. And likely, the value that the vaccine can bring, if we try to calculate the value of the vaccine for the pricing, like any other vaccine we have, will come so huge because, obviously, you are having here now closed economy or open economy, right, that if we were to implement free open-market principles in pricing the product, we could go to huge prices and sell everything we can manufacture. That will be an unethical, I think. We will not do it, all right? Because that's really taking advantage of a situation, and people will not forget if you do that.

So I'm more into, I think, I would price -- we will price the vaccine, if it is available, in the price of all the other vaccines that already exists in the market without taking into consideration the huge needs or the huge demand and offer so that we will not have any type of this rumor. Still if you make the calculation, that's a huge commercial opportunity.

Terence C. Flynn - *Goldman Sachs Group Inc., Research Division - MD*

Yes. Okay. Great. Appreciate the perspective and best of luck over the next several months. The obviously other big-picture topic which is fairly relevant now is there's a pricing setback for IBRANCE in the adjuvant setting about a week ago, and you reiterated your expectations for 6% top line growth through 2025. I recognize that's a risk-adjusted figure, so there are some puts and takes on either side. But how much pressure does that really put on the other franchises that you guys have? And maybe also on the other side of it, on the inorganic side, how much pressure does it put on the M&A side or business development side of the equation as you think about reaching that 6% target?

Albert Bourla - *Pfizer Inc. - Chairman & CEO*

Yes. Again, I want to be very transparent and speak, let's say, to the start, first of all, I was surprised that PALLAS didn't make it in the interim result. I was uncertain because it's a Phase 3 study, so you never know if it works or not. But based on everything that we had preclinically and in the mode of action, I never thought that will stop at the interim analysis for futility. So that's the fate of science. But what it does into our overall portfolio and our growth trajectory, I had already said that it's not -- I did the moves to focus the company into science because I felt very good about, one, our R&D productivity, again, the work of my predecessor and myself and Mikael Dolsten, but it was under Ian that, that was accomplished. And because of the portfolio that we have, right, it is very deep, and it's a lot of -- it's a very broad portfolio. So on a risk-adjusted basis, it's difficult to miss the 6% because if something fails, something else succeeds. So you take down the probability of that fails and you take up the probability of the one that is successful. PALLAS, for example, because many people are asking, we had 50% probability of success in our models. And frankly, I

don't do that often, but because of the importance. We had $2 billion of peak sales for PALLAS in addition to the IBRANCE and then risk-adjusted to one. And again, why we had all of that in our models was because the PALLAS could almost double the population, which is addressable. So that's one element. But also, we tempered that opportunity by the fact that the CDK penetration in a population that has very different risk profile, people were not dying or it was death -- having an adjuvant treatment. It's not taking something for someone who has a death sentence, right? So that was going to be much less. We're expecting that if we are successful, competition will be successful on that. And the studies were coming not far away, one from another, unlike the first indication that we came years back. And also, as we are very sophisticated in building our models, we knew that in the beginning, we could have a bulk of sales because there's a bolus but then the bases are recycled. If you treat them before, then you have less to treat when the government asks us. Well, with all of that in mind, that was the number that we had.

So basically, for the 6%, we had to absorb $1 billion right now. What happened at the time that we said the 6%, many other things happened also on the positive side. We didn't have the Prevnar adult pivotal studies. As I said, if it is not pivotal, you have very low probabilities. I mean if it's Phase 2, you can have 50% or whatever. When you go to a pivotal study positive, then the probabilities are going much higher. In pediatric 20, by the way, 20 adult, we are going to file this year, right? So it's like we are first to file. Pediatric, we had pivotal -- we had proof of concept, successful, and we started pivotal already. We had the data, proof of concepts from pneumococcal 20-valent that we didn't have. We had the proof of concept for RSV, we didn't have. We are starting pivotal studies for all of that. We had positive pivotal studies for abrocitinib, which is actually not one, more. So when we do that -- so we took IBRANCE from 50 to 0 in the PALLAS, and then we increased appropriately. The others are still in a very good shape, for 6%.

Terence C. Flynn - *Goldman Sachs Group Inc., Research Division - MD*

Okay. And do you think are those the key opportunities that you think maybe investors are underappreciating? Because I think consensus had probably, I would assume, like higher IBRANCE numbers, and so as a result, probably lower numbers than some of these other franchises. So as you look at those numbers, no, you're not giving product-level guidance, but do you think that's kind of the key variable between where The Street's shaking out and maybe where you guys are as you're optimistic about some of these other pipeline assets?

Albert Bourla - *Pfizer Inc. - Chairman & CEO*

I am optimistic, and I know there are many more that I think, right now, I have seen so far very little in the modeling. Prevnar, for example, I spoke, I think they have all modeling. So Prevnar 20 in adults and pediatrics, they are all having it in their models. But I don't think anyone has Clostridium difficile, which is -- for a disease that doesn't have a vaccine. 30,000 people are dying every year from this disease in the U.S. only, and we are expecting pivotal data this year. I don't think anyone has anything for pentavalent meningococcal, the first and only meningococcal vaccine that is in development right now, and we have very strong Phase 2 data, now as I said, in Phase 3. I don't think that anyone had any for RSV. Again, it is very strong. I don't think anyone is factoring any for the Lyme vaccine that we just licensed. In general, we have right now 7 vaccines that they do not have another vaccine, so they are first in class, all 7 in the clinic.

Let me go to immuno-oncology. I think that everybody is factoring and modeling something on abrocitinib. I think everybody is missing the point that, right now, we have 5 different molecules in 10 different indications in immuno-inflammation.

Just to clarify, and I would say it once more, we have a very, very different strategy than anybody else who is jumping on JAKs right now because it's an attractive area, sexy, I would say, around that area. Everybody is having a strategy that they test molecules. They are picking a winner, and then they develop this winner for all indications. That's more or less the strategy of the other. We follow years back, very different struggles. We are picking a single winner for an indication. And for another indication, another winner. And for the third, another winner because you have seen very big difference, very big difference when it comes to skin or when it comes to arthritis or when it comes to the gut, et cetera. So we believe we are going to have best in class in all of that because of this approach.

I don't think that everybody is again planning tafamidis in the rare disease portfolio that we have. But no one is doing anything for hemophilia A, hemophilia B in terms of gene therapy or Duchenne muscular dystrophy instead of gene therapy. Maybe Duchenne muscular dystrophy because

there is a lot of debate, not because of us, because what that means to the biotech that has a competing product in the hope that will be successful again. But this is why so much debate, but nobody is factoring anything on that. I can go on and on.

Next week, for example, we'll release data, and we will present, and we will have also a big -- a quick, let's say, investor analyst review for internal medicine or GLP-1. So it's a lot of things that are happening in oncology, tremendous portfolio.

So that's why I think these are tangible assets. It's not things I have good vaccines portfolio. I have 7 in clinical trials, most of them in Phase 3. And there are -- yes. So when they are first in class, I think that means something. I don't think still The Street is going into that detail. And I hope our Investor Day also will make people see that, and I hope people will see earlier and that we're not missing opportunity.

Terence C. Flynn - *Goldman Sachs Group Inc., Research Division - MD*

Yes. Great. Yes. No, I think that will be a great opportunity to walk through a lot of this in September. I know you guys have prepared a lot for that and had to push it out obviously because of COVID to September but really looking forward to the Investor Day in September.

I guess the corollary, so it sounds you're extremely confident in everything in the pipeline. So then what's the approach going to be on the business development front? Obviously, you've done -- you did the Array deal for bolt-on, brought in some revenues in cancer, also brings in some discovery engine. But what's the approach to M&A here? Again, it sounds like you don't really feel like you need to do anything because of the depth of the pipeline. So how are you approaching the need for additional BD M&A?

Albert Bourla - *Pfizer Inc. - Chairman & CEO*

Yes, excellent question. And it's exactly the same thing that I have said before. And let me reiterate because I want to be also realistic. I don't say that I feel extremely confident for everything in our pipeline, but I feel extremely confident for the pipeline as a whole because it has robust science, multiple assets and appropriate risk adjusted. So I feel that statistics will work, and we could have an upside. But I think statistics will work.

Now what does this mean for our strategy in terms of business development? Business development is not a strategy. It's a tool. So I want to start with all investors. It would be not to the interest of our shareholders if I say I'm excluding this or that. Everything, we never say never to anything. But also, I want to be fair with all who's investing and share my thoughts, my strategic thinking, how I see the growth in the business development. And it is what I say. I think organically, I feel very confident right now that we can go all the way to '26 with 6% growth. Anything in business development that adds growth now is going to be -- just to make it higher. And this is not, I think, what we really need right now. Of course, we will do things, but it's not what we need. I think there is a lot of discussion what if this growth, post '26, is sustainable and because products will start losing patent again. And I'm replying to them, I feel confident. First of all, it's normal that products will start losing. We're going to lose -- some, they are summing all together, but so -- 4, 5 years period of time, but those will happen. It's one every year, right? It's very normal to lose one patent every year.

Our internal pipeline, the way that we are planning it is that post '26, still we will have growth. But I think that to sustain that high level of growth, we are going to do business development that includes Phase 2, Phase 3 early assets, programs, research programs that will give us medicines potentially '23, '24, '25, '26, et cetera, so that they can propel the growth at this time.

Terence C. Flynn - *Goldman Sachs Group Inc., Research Division - MD*

Yes. Okay. And the core therapeutic areas, you guys have talked about this at all, so I'm assuming no change on that front. And the size of the deals, it sounds like more clinical stage is kind of really the core focus here as opposed to later-stage commercial or larger deals. It sounds like that's, again, given everything you've said, that's completely off the table.

Albert Bourla - *Pfizer Inc. - Chairman & CEO*

Yes. I think if you are speaking, as I said, nothing is off the table. I never say never. It's not going to the interest of anyone to corner myself, right? But I understand that people want to see what is the strategic thinking, and you're right. It could be some, but they are on the later stage and likely will be more expensive, but the bulk of them will be on the Phase 2, Phase 3. And -- yes.

And now on the therapeutic areas, again, I don't expect to have significant changes in the therapeutic areas. And the reason is because when you invest a lot on earlier science, you need to make sure that you invest in areas that you know your -- what you are doing. I don't buy a product, but it's already done so that I can only sell it, and I'm confident on my commercial. In oncology, vaccines, immuno-inflammation, rare disease, including gene therapy, internal medicines, metabolic diseases, those are the 5 core areas. There are areas that I will make -- we will make our scientists fewer mistakes in selecting the right assets, and we'll make way fewer mistakes in developing them because the development path is equally important than the potential of the molecule. So these are the areas, I think, that will have the best return on investment right now. We can do some here and there, but the major focus is the areas that I just said.

Terence C. Flynn - *Goldman Sachs Group Inc., Research Division - MD*

Yes. Maybe a big picture kind of on the commercial side in terms of your therapeutic areas. So you talked -- investors are fairly familiar with cancer, immunology, in terms of how to think about these markets and the size of the potential market opportunity. Vaccines, I'd argue now, we, as a society, are probably going to be putting higher values on vaccines given everything we've seen from COVID, and it sounds like that's another big effort at Pfizer. Gene therapy is the one where I think there's maybe more of a debate in terms of understanding kind of the commercial model, especially maybe if you're a second to market or third to market. So how do you think about that commercial model evolving and gene therapy? Obviously, it's another big important area for you. You're moving into Phase 3 for DMD and hemophilia, as you mentioned. So how do you see the commercial model evolving? And how important is it to be first versus maybe the second with a better therapy?

Albert Bourla - *Pfizer Inc. - Chairman & CEO*

Yes. I think that the commercial model is still one of the unknowns. And the reason is because gene therapies are coming with a significant sticker shock, right? The tag price is very high. The value is very good when you try to amortize. But the fact that you have to pay it all upfront, it is going to create potential issues with payers, not now because we have 1 or 2, but if, let's say, a very big wave of them are coming. So I think this is something that everybody is recognizing, and we are all trying to work on creative models, how the pricing could work and what happens if you can do in installments, if you can do it, guarantee results, et cetera, et cetera, despite the fact that there is a little bit of uncertainty on the -- how the model will be developed. Myself, I have very high certainty, but it will develop. And the reason is because the results of gene therapy are transformational. I don't know any other technology right now in development that gives the promise of such transformational therapeutic or impact then the gene therapy. People that are living for years with hemophilia, for example, and particularly those that are in the high-risk groups, they have to do weekly injections, right? Suddenly, they skip. They are getting one injection, and they are in the fifth year, and they are having 98% reduction of bleedings without going every week, okay. A lot of premium you can put to that. So when you have that or Duchenne muscular dystrophy, kids that they have very poor prognosis and after the second decade of their lives, unfortunately, in the third, they die, most of them, and they have very poor quality of life. They can't move. They can't eat. And when you have a product that with one injection improves dramatically that, I'm sure that when the value is there, society will find a way to pay for it.

Now is it going to be the first or the best that will get everything? I really don't know. I think will be a lot of things that will be on play. Your ability to manufacture, I think, is much more of a good question to ask right now on gene therapy because that seems to debottleneck for everything, particularly when you come to muscle, which requires significant volume. Gene therapies in the beginning were for eye only, and that required very small quantities. You can do it in a lab. Then you went to hemophilia, you speak much bigger quantities because you need to target the liver. And you go to Duchenne or other, you go to much bigger volumes because you are talking about muscle. We have invested. And right now, we have, I believe, the largest manufacturing capacity under construction in North Carolina, in the world for gene therapy. And that not only will allow us to be in this area to provide for supply for our own products but makes us a partner of choice for smaller biotech that would like a partner and need a partner so that they can advance their positions. And money, everybody can give. Manufacturing capacity, only those that they have, they can give. So I think that's also another advantage.

Terence C. Flynn - *Goldman Sachs Group Inc., Research Division - MD*

Yes. Great. Maybe in the last few minutes, would just be curious in kind of -- as you think about the outlook for margins under kind of the new Pfizer, the biopharma business. How should we think about that evolving? Obviously, there are a number of puts and takes. It sounds like you're going to do some additional streamlining. You have new products coming onboard. But then kind of back half of the decade, there are some other products coming off patent. Do you feel pretty comfortable about being able to at least have flat margins kind of over that period? Maybe just at a high level, you could kind of talk about some of the puts and takes.

Albert Bourla - *Pfizer Inc. - Chairman & CEO*

No. I didn't say that I will have flat. I think our margins will grow, will expand. I think when your top line, irrelevant what you do with your expenses, let's set aside that for a moment, okay? But in this business, in pharma, if your top line grows 6%, there is only one name for bottom line leverage, right? You need really to screw it big time in the way you manage your P&L not to have leverage.

Now in addition to that and the fact that not only our the top line is growing but also the gross margin because these are very innovative products and what we are going -- so the 6% is very innovative growth, so they have very high gross margins.

Also, we are going to attack, as we said always, the indirect SI&A expenses. And we have a very big program that we are trying to -- we are coming to a conclusion now that speaks about the enabling functions for a corporation like us. We have 3 core functions, every pharma company. We have a research engine function, makes all the products; we have a manufacturing, they produce them; and then we have a commercial, makes sure that they reach the patients. But then we have, in our case, $4.5 billion annual expense in HR, legal, digital, facilities, you name it. And this is the area that we try to make ourselves much more productive, not just by cutting costs, but by implementing simplification initiatives that will allow us to do -- to be much more effective. And that, we'll have also in addition to what I said that top line growing will leverage on the bottom, that will be an additional boost to the bottom line.

Terence C. Flynn - *Goldman Sachs Group Inc., Research Division - MD*

Great, great. Maybe just the last one. You mentioned your JAK portfolio and the confidence there and the differentiated approach you're taking. Again, it is a fairly competitive area, but you do have a big presence with Xeljanz. You have a very deep pipeline. What's the kind of key differentiated feature as you see it? And how do you think about the competitive landscape from both other JAK inhibitors, kind of these next gens, but also some of the biologics like a drug like Dupixent, which you did a head-to-head study against?

Albert Bourla - *Pfizer Inc. - Chairman & CEO*

Yes. No. I think that the best in class is what will win in this. That's why we took the strategy that we took at that time. And best in class is a combination of efficacy and safety profile. So -- and the more efficacious your molecule is, typically the lower dose you have, so the less side effects you will have to achieve the therapeutic effect. So by ourselves, this was the bet that we took by saying that let me find in preclinical and then proof of concepts which molecule works best for atopic dermatitis, and I stay with that. And then I pick another one to do psoriasis. Even in the skin, right, we are using 2 different models. We do that because we see that in another one, we could have better efficacy for psoriasis, which means that I can maintain the dose at a lower level so to achieve the clinical results that are required without exposing, let's say, the safety. So I think given that, there will be a lot of -- there is a lot of research effort like that. The best in class is what will make a very big difference.

Terence C. Flynn - *Goldman Sachs Group Inc., Research Division - MD*

Yes. Great. And maybe just one e-mail question I got is just as we think about the M&A environment, how do you think about valuations on kind of the biotech side now? Things have come back, but any just high-level comments on biotech M&A?

Albert Bourla - *Pfizer Inc. - Chairman & CEO*

I think they are very high. And the -- as you said, a lot of them went back, went down. And then some of them, I think, they are coming back. But we need to understand that it's a very different story what is the market cap and what is the Board's perception of the real value. And although prices went down what didn't follow, it is the Board's, let's say, of different biotechs, there are still, I think, some of them in denial, okay? They're no, no, no. It's much higher. But still, so this is a very expensive environment. We do have the means to play in this expense environment, but I want to be very careful how we spend the money. If we have to pay something that I think is on the edge of the valuation because it really brings what we need, we will do it, right? But I'm not going to go to levels that I have seen for the billions of dollars that were spent to one molecule that maybe will make it. I don't like that.

Terence C. Flynn - *Goldman Sachs Group Inc., Research Division - MD*

Yes. Okay. Great. Well, I think we're up on time, Albert, but thank you so much for your comments. Really appreciate your time today. And again, thank you for everything you're doing on the COVID front, and best of luck over the coming months and years.

Albert Bourla - *Pfizer Inc. - Chairman & CEO*

No. Thank you very much, and I will I finish with that. I hope all the companies that are working solutions right now, vaccines, for example, or antivirals, will be successful because it's much more likely than not, that the demand will be so big that the offer cannot take off, even if we are all approved.

Terence C. Flynn - *Goldman Sachs Group Inc., Research Division - MD*

Great. Thank you. Thank you, Albert. Thank you, everybody. Thank you very much.