

REFINITIV STREETEVENTS

EDITED TRANSCRIPT

PFE.N - Pfizer Inc at Evercore ISI HealthCONx Conference

EVENT DATE/TIME: NOVEMBER 28, 2023 / 3:50PM GMT

OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

David M. Denton *Pfizer Inc. - CFO & Executive VP*

CONFERENCE CALL PARTICIPANTS

Umer Raffat *Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research*

PRESENTATION

David M. Denton - *Pfizer Inc. - CFO & Executive VP*

Okay. Great.

Umer Raffat - *Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research*

Excellent. Well, listen, thank you guys for being here. I think my mic's on. Jazz just put out an update as you guys probably heard. So I don't think Pfizer has a major new update on anything safety?

David M. Denton - *Pfizer Inc. - CFO & Executive VP*

We do not.

Umer Raffat - *Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research*

Okay. All right. Let's get that out of the way.

David M. Denton - *Pfizer Inc. - CFO & Executive VP*

We're starting off on a high note.

Umer Raffat - *Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research*

Excellent. But Dave, good to see you. Looking forward to this fireside. And maybe I'll turn it over to you to kick things off. And I know there's a lot to talk about.

David M. Denton - *Pfizer Inc. - CFO & Executive VP*

Yes, there's a lot of talk about. Obviously, Pfizer is at a really interesting period of time in its evolution, coming off what I would consider the COVID high. Clearly, we've kind of reset our expectations for COVID this year, but importantly, are on the precipice of a few things. One is we're working diligently to close the Seagen acquisition. I'm sure we'll speak about that in a moment as we kind of lean into oncology in our cancer franchise.

Secondly, we've entered into an agreement, both ex U.S. and here within the U.S., regarding our COVID franchise. I'm sure we'll talk about that at some point in time within the day or later in the future. That gives us a little bit more stability and outlook for that franchise going forward.

And third, we've recently announced some pretty sizable cost realignment programs to get our cost base and aligned with our revenue performance and expectations over the long term. And so I'm sure we'll talk about that as well.

So with all that together, obviously, an interesting time. We're very focused on execution at this point. So look forward to the conversation.

QUESTIONS AND ANSWERS

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

Outstanding. Well, there's a lot of directions to go, and I'd love to take questions from the audience. So happy to go down any direction.

But maybe just to start off where you just mentioned that there's a huge emphasis for the last couple of years on how the base business EPS was perhaps more like \$2, but in light of some of the cost cuts as well as some of the visibility now coming through on PAXLOVID, maybe perhaps it's closer to 3. Is that how you think about it, what the base business underlying EPS -- the recurring EPS, because PAXLOVID should no longer be excluded from that recurring...

David M. Denton - Pfizer Inc. - CFO & Executive VP

Yes. Well, I think -- I guess let's take a step back and say, obviously, we have a core business that excludes our COVID franchise. I'll come back to that in a moment. That core franchise is obviously a very stable business model, but importantly, a business model that we're investing behind to grow that business over time.

We've been very clear that in the back half of the decade, we've actually invested a lot of the proceeds coming out of COVID to enhance that core business as we think about growth from the 2025 to 2030 time frame.

And think about that kind of in 2 buckets. One is the growth coming out of our existing pipeline and our new launches that are happening this year and early next. And importantly, the BD efforts that we put in place, all of which together is about \$40 billion of growth at this point in time by 2030, between those two components.

On top of that is we have what I consider kind of an option, an option around the COVID business that continuing going forward, is going to create substantial cash flows for us that we can continue to turn around and reinvest to enhance the COVID franchise, but importantly, enhance the core. And obviously, the COVID franchise, the variability around performance is higher because it's a relatively new market if you think about it from that perspective.

But nonetheless, there are going to be very large products that will produce substantial cash flows for us that can be reinvested and/or returned to shareholders to drive value over time. So -- but yes, conceptually, that's how we think about it, and that's how we kind of position the company going forward.

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

Excellent. The other question, Dave, that also comes up is, obviously, there was a lot of lack of investor excitement around Seagen for a while until some of the EV-302 data came out, and I think that started to evolve.

David M. Denton - Pfizer Inc. - CFO & Executive VP

Correct.

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

And investors are well aware where the leverage stands, where the debt stands after the deal closure. But one question that has come up is technically, there is still \$3 billion in repurchase authorization at Pfizer right now.

David M. Denton - Pfizer Inc. - CFO & Executive VP

Correct.

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

As much as that's not a big lever that could be pulled right now in light of the amount of leverage, are there pockets of perhaps even signaling to the market that you guys do think you're very dislocated right now?

David M. Denton - Pfizer Inc. - CFO & Executive VP

Yes. We clearly believe the shares are very much dislocated based on expectations that we have. And I think as many of you've discussed, I think practically speaking, we are very levered compared to our long-term objective from a capital structure perspective. So having that as a backdrop, share repurchases are not within kind of our path of execution at this point in time because we do need to -- first priority is close Seagen. Let's begin the integration of Seagen and let's begin to delever.

And once that begins to happen, then share repurchases can come back under the table. Because I do think it's really important long term to have our capital allocation program balanced to some degree between investing in our core business, growing and maintaining our dividend and importantly, doing share repurchases. Unfortunately, where the leverage is at the moment, share repurchases are the lowest priority, unfortunately.

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

Makes sense. And the closure timing on the deal, is it primarily on the EU side? I'm clearly not as well versed on it as some of our...

David M. Denton - Pfizer Inc. - CFO & Executive VP

Yes. It's actually not on the EU side. It's all here in the U.S. We still expect that deal to close either late this year, which I know we're getting short on time, but still could happen this year or early next year.

We continue to work -- as you well imagine, we've done a lot of deals over the last several years. We've worked very proactively and productively with the Trade Commission here in the U.S. and we'll see how -- obviously, we don't have specific timing around that, but I could see a path for, again, later this year or early next.

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

Got it. And based on everything you guys can tell, there's no surprise suit or something from their side that could mostly just as a signal to slow it down by...

David M. Denton - Pfizer Inc. - CFO & Executive VP

No, I don't believe so. Not that I know about, put it that way. Obviously, we continue to work with them, but it's a little bit of a black box in these -- all of these deals are like that.

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

So that's the extent of my risk arb sophistication -- so since I've exhausted that, maybe we can turn into the base business now.

David M. Denton - Pfizer Inc. - CFO & Executive VP

Sure. Sure. Sure.

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

So okay, now reasonable to say also that from a biz dev perspective, things are at a pause. So deal closure, share repurchases, and that's kind of the plan right now?

David M. Denton - Pfizer Inc. - CFO & Executive VP

That is correct, in execution. I'd say, clearly, execution both in two fronts -- or actually multiple fronts, first and foremost, in our core business, making sure that we execute successfully through our commercial business, both here in the U.S. and ex U.S. Secondly is supporting the launches that we just -- that are beginning to take hold and really accelerate those into late this year and early -- particularly into 2024. And then third, making sure that we invest appropriately around our COVID franchise.

Those two products, they're very large products. They've only recently become commercialized. And so we need to make sure that we invest appropriately to support the growth -- support the revenue yield around those, but not overinvest or underinvest from that perspective.

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

Makes sense. I guess, Dave, something I've been thinking out loud, and this is not a question on '24 guidance or anything, but just thinking out loud. If the underlying business does about \$2 in EPS and cost cuts, because they'll be \$3.5 billion next year, that's over \$0.50 in contribution EPS next year, PAXLOVID at a 5 million courses commercially, which is sort of the run rate we have this year as well, I'm talking end user demand at the price point you have perhaps another \$0.50.

And we have some pockets like some vaccine sales, pockets, like PADCEV probably tracks meaningfully ahead of consensus next year because of EV-302 data. There is a chance you're materially north of \$3 in EPS. Is that a type of scenario that's been contemplated? This could be \$3.30, \$3.40 or...

David M. Denton - Pfizer Inc. - CFO & Executive VP

You're way ahead of us. That's your math, not mine. I would say that -- I would just pause on that and say we will come back to the market, make sure that we -- as we think about our plan for 2024, we'll give everybody a perspective on kind of how the business is going to perform both with and without our COVID franchise. And importantly, what's going to happen as Seagen closes and we apply the Seagen business model onto our expectations for '24.

And we'll be able to lay all that out at some point in time, so you can get a very clear picture of it. Clearly, Seagen -- just to be clear, Seagen is dilutive in the first 3 to -- 2 to 3 years just given the financing considerations on the business. So...

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

Got it. So maybe turning to pipeline, I want to talk about some of the commercial business as well. I know Pfizer has only one drug in the pipeline, which is the oral GLP. So...

David M. Denton - Pfizer Inc. - CFO & Executive VP

I think it's our total focus now, yes.

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

So maybe let's start there. Can you talk about sort of the broader strategy? I know there was a -- I keep emailing Ronen, I probably annoy him, that, oh, there's this other obesity Phase 1 that popped up. There's another [mechanism] that popped up. Can you speak to sort of the broader strategy around obesity? And internally, do you really think of it as danuglipron only? Or is it actually much more broader?

David M. Denton - Pfizer Inc. - CFO & Executive VP

No, it's broader than that. Obviously, we have -- and it's much broader than just also obesity and diabetes. That's one area of focus for us, but certainly not the end-all, be-all focus for Pfizer. We have a lot of assets in early-stage development and research. And I guess from a Phase 2 perspective, we have many assets in Phase 2, including danuglipron.

I would say that we continue -- it's as you know, a very evolving market. The market's probably going to be quite large. And with big markets, there's going to be niches of markets and certain patient needs across the market. And how we play in that market is yet to be determined, and how others play in that market, quite honestly, is yet to be determined.

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

Got it. And again, we'll go through several pockets of the pipeline step by step, but maybe focusing on the diabetes, obesity for a second. Is the internal expectation singularly focused on danuglipron only? Or are you guys also thinking of that as a portfolio based on some of the new Phase 1 GLP, the novel...

David M. Denton - Pfizer Inc. - CFO & Executive VP

Well, obviously, in research, we are researching a lot of different topics within a lot of different spaces, including in this area. So it's not the single component for us but obviously, the latest stage component that we have and asset we have in our pipeline.

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

Got it. And the Phase 2, I know there was some confusion around whether there was an internal readout or not or whether there was an interim readout internally or not. Can you remind us?

David M. Denton - Pfizer Inc. - CFO & Executive VP

Yes. We are close to presenting data as we expected and as we announced that by the end of the year, we'd likely have data coming out of that trial. And when we have it and have it analyzed appropriately, we will share it with the market.

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

Got it. And...

David M. Denton - Pfizer Inc. - CFO & Executive VP

And importantly, what we will do is the -- we will let the data guide our decision on how we move forward. And once we understand and analyze the data appropriately, then we'll lay it out and talk about the path forward for that specific asset in the future.

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

Makes sense. And just to be clear, I know people can get fixated on specific words. I think you mentioned presented, but I think you're referring to having a press release out, right?

David M. Denton - Pfizer Inc. - CFO & Executive VP

Say again?

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

You mentioned presented on danuglipron. I think you were referring to having the data out. Publicly...

David M. Denton - Pfizer Inc. - CFO & Executive VP

Correct. That's correct -- yes, publicly disclosed, correct. Yes.

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

Excellent. Any other questions on danuglipron? I know it's the only program in pipeline. Okay. Okay. Excellent. So maybe focusing on Seagen for a second. For a while, I remember, I had Albert over and I think a few investors were over, too. We had Albert at our CEO's palace. And we were over...

David M. Denton - Pfizer Inc. - CFO & Executive VP

Which palace?

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

One of them. We were talking about how his internal expectations on Seagen revenues were lower than what Street was modeling. I think the number was \$7 billion for the currently approved product, which includes PADCEV. And Albert mentioned, we internally thought it's less than that, but pipeline is what drives upside beyond the Street numbers. Is that still the view after EV-302 data?

David M. Denton - Pfizer Inc. - CFO & Executive VP

Yes. I don't know if that's exactly what he meant. So I think what he meant -- and I wasn't there, so I don't know his exact -- exactly, I should come to the palace, too. But I wasn't there. I didn't see the quote.

But I think what he meant to say or what we've said many times is the Street from an expectation perspective around Seagen had essentially modeled their in-line products. And that roughly got to between \$7 billion and \$8 billion of revenue by 2030.

When we said \$10 billion by 2030, we actually looked at the pipeline and said, okay, there is some value that we can attribute to the pipeline from a revenue perspective. And that takes us from the \$7 billion to the -- \$7 billion or \$8 billion to the approximately \$10 billion in revenue we expect coming out of that asset.

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

Got it. Okay. That makes a lot more sense, that makes a lot more sense. And as we think about sort of the most important readout because I still think a part of Pfizer's overall stock move into next year will still depend on sort of emerging data out of Seagen. Is there a more definitive data points? Is there -- what specific data points would you point us to, which could be important from a marketplace, perhaps B6A lung update or beyond?

David M. Denton - Pfizer Inc. - CFO & Executive VP

Yes. I don't know if I would point to any one. I think it's a combination, there's a lot of assets they have in their pipeline at this point in time. So it's going to be hopefully a pretty constant presentation of the data coming out of the pipeline, and we'll lay out a plan for when that's going to be shared as we get into actually owning the asset right now. We're kind of watching it from afar, a little bit like all of you, given that it hasn't closed yet.

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

Okay. Excellent. Anything else on Seagen before we move on? Maybe transitioning then to some of the core franchises. I know the pneumococcal vaccine has been a huge focus. Obviously, very important for you guys, very important for Merck, but there's also a lot of emerging companies that are in that space as well.

First of all, maybe let's start with what's happening right now in the marketplace. Merck with the -- finally an infant formulation out there, and they seem to be doing a little better than they did on the adult side. Can you speak to that dynamic? How is that playing out?

David M. Denton - Pfizer Inc. - CFO & Executive VP

Yes. Listen, I think we have -- if you look at our franchise, our franchise continues to have a fairly sizable market share in excess of probably 70% at this point in time, both in peds and adults. I think we've actually weathered quite well from a competitive marketplace perspective. Actually, I think our share has actually picked up slightly a little bit recently.

This is a space that is going to be competitive long term with many -- probably many players. I think as you said, there's others that are trying to disrupt the space. We're certainly aware of that and are focused against it. This is a franchise that we've had in place for many years. We're well established commercially. I think our brand loyalty and our brand name carries a lot of weight, and our relationships with our health care professionals across the globe carry a lot of weight. This is a trusted brand, and we'll continue to lever into that and innovate around it.

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

Makes sense. Makes a lot of sense. I know there has been -- in conversations with Pfizer's vaccine team, I think we've had some conversations previously as well. One of the points that's always stood out is that -- Prevnar 7 went to 13, Prevnar 13 went to Prevnar 20, and it's not stopping there. And the goal is to go perhaps to 24 and/or beyond.

One of the questions that's come up is the way Merck is attempting to do that is by taking -- by dropping some of the first 13 and adding the next 11...

David M. Denton - Pfizer Inc. - CFO & Executive VP

Correct.

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

To effectively have a 24, but it's not a full 24 in 1. Does Pfizer envision a program which could do beyond 20 in one single shot?

David M. Denton - Pfizer Inc. - CFO & Executive VP

I don't know if we've really said how we're working on that specifically. I would say that from a science perspective, our scientists are evaluating a bunch of different options on how best to think about the development of that product and that franchise going forward.

And so I would say all of that is on the table, but I wouldn't say that we've described a path forward specifically on that. I would say that we've been in the space for probably the longest amount of time than anyone. I think we have a fairly good grasp on what needs to happen here. And I think we continue to work diligently to make sure that we have the best set of products moving forward here.

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

Okay. Excellent. Maybe sticking to vaccines, I know there's a lot of interest in the RSV launch right now. Can you speak to the market share dynamics with GSK and how you expect that evolving further?

David M. Denton - Pfizer Inc. - CFO & Executive VP

Yes. So let me say first, obviously, the launch has gone pretty successful this year for the market in general. I think the market from an RSV perspective was a bit bigger than anybody anticipated as we cycle in the back half of the year 2023.

I would say that as I sit here, we're disappointed in our market share despite the fact that the market was bigger and our performance has been good overall. If you look at our market share, I don't think we performed as well as we thought we could and what we think we will going forward.

Obviously, there are certain channels that where we don't have as much market share. It's been a little bit more exclusive than nonexclusive. I think as we go into '24, we have eyes on focusing to make sure that we get more than our fair share in the marketplace.

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

Okay.

David M. Denton - Pfizer Inc. - CFO & Executive VP

But those are -- that's -- this is a competitive landscape, right? And we'll have to be very competitive and focused on being able to deliver against that objective.

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

Got it. I want to transition to flu, and I have more flu-specific questions as well but I know -- do you guys foresee a scenario where you have a COVID, flu, RSV single shot? Is that something on plans?

David M. Denton - Pfizer Inc. - CFO & Executive VP

Yes, I think it could happen. We've talked about the fact that potentially a triplet could make sense, but we'll see where that goes at this point in time. I mean there's science behind that, and there's also market dynamics behind that.

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

That's exactly right. So from a price point perspective, do you guys get some sensitivity?

David M. Denton - Pfizer Inc. - CFO & Executive VP

I think it's way too early to even talk even about combos versus triplet pricing. So I think we'd have to evaluate a bunch of different scenarios, understand how we think the market might play out and then the various dynamics around that.

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

Got it.

David M. Denton - Pfizer Inc. - CFO & Executive VP

But first, the science has to work. You've got to make sure that the -- either as a combo or triplet that they work together and don't interfere with one another. And once the science is there, then you can understand how much from a modeling -- at least from a financial lens perspective, what do you think the market size could be, what do you think price points could be, therefore, economically, what's the right level of investment that you can support behind these different types of franchises.

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

Makes a lot of sense. As we think about flu and some of the data coming out of your competitor as well, how are you guys thinking about your positioning and your expectations on some of the data coming up for you guys?

David M. Denton - Pfizer Inc. - CFO & Executive VP

Yes. Well, as we said, we're still working hard on the flu. We've continued to advance. As you know, it's been -- the standalone flu has actually been delayed a little bit compared to what we expected, so it's really into not '24 into '25. And as we get more data, we'll be able to share more about it. We're just not there yet.

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

Okay. Excellent. Anything on the topic so far from the audience before I transition? Okay. So maybe let's continue down this track. I know Pfizer was obviously engaged in a series of biz dev deals. There's a very interesting slide you guys also showed on the revenue possibilities, \$84 billion.

Street hasn't necessarily agreed with that, which is a different conversation. But let's talk about some of the deals maybe one by one. I know Biohaven is out there. It has done well. Is it sort of tracking slightly below sometimes where some of the consensus numbers track? That's been a topic that's come up. How do you guys see sort of the overall momentum there?

David M. Denton - Pfizer Inc. - CFO & Executive VP

Yes. It's interesting. It's tracked a bit behind, I guess, sell-side consensus us a bit from that product perspective. I would say if you look at our internal plans, actually, the total acquisition and NURTEC specifically has actually performed in line with, if not slightly better than we expected as we sit here today. I think it's still within that category, is the largest market share.

We continue to have the number of, I guess, pills per patient as we think about it as more of a maintenance drug has continued to tick up. We continue to get more patients on therapy. We continue to have productive engagements across the health care landscape with health care professionals and mostly in the primary care offices. And so we're feeling momentum there, and again, it continues to perform as we expected.

I think, unfortunately, some of the sell-side estimates got a little bit ahead of themselves as we thought about it. It takes a while for these products to take hold. It takes a while to get them into kind of our channels and get into our commercial engine. And so a little patience to be able to ramp these things up is -- needs to be applied to that. But again, we feel good about where we are, again, tracking consistent with what we expected upon the deal...

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

So there are some deals that Pfizer did, which there was a lot more pushback on in terms of the valuation or the type of assets. Biohaven, no one disagreed that it's the wrong company. Maybe valuation, perhaps a little north of where it should have been, that could be debated.

But one thing was clear, which was for a deal size of \$13 billion, math works really nicely if the drug does \$3 billion or so in sales here. Pfizer went out of the way to put out a \$6 billion sales number. How did you guys think about that?

David M. Denton - Pfizer Inc. - CFO & Executive VP

Yes. So we looked at...

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

And could that be done in future deals?

David M. Denton - Pfizer Inc. - CFO & Executive VP

Yes. Listen, I think -- well, I guess, it's a good debate. We -- listen, we're taking capital. We're deploying capital into these acquisitions. And I think from my perspective, given a little clarity on our expectations of performance in these deals is -- should be expected by investors.

And so setting a bar of \$6 billion in revenue is, I think, appropriate or setting a bar for revenue is appropriate. So you can understand how we're taking capital within the business and deploying that capital. So yes, I think it's appropriate. We didn't -- keep in mind, we didn't give you a specific timeline exactly when that's going to happen, but we said we feel like the franchise can get to those levels.

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

Got it. Maybe another one, Global Blood. I know that program is tracking at sub-\$400 million run rate. Expectations are \$1 billion and also there's the backup, 601 program. How are you guys feeling on that broadly?

David M. Denton - Pfizer Inc. - CFO & Executive VP

Yes. We feel good. Again, that's another product that is tracking consistent with our expectations upon the deal model. And I think, importantly, we were excited about 601 when we -- from a diligence perspective, when we did the deal, I think the data around 601, if anything, has gotten even stronger than what we expected. So I think that molecule has come along nicely in the clinic.

So again, I think we had -- in this case, both Biohaven and GBT, they have products on the market that somewhat derisk, if you will, at least put a floor to some degree on the returns. And then we knew they had assets in the pipeline, if they were successful, could actually help the returns even above and beyond kind of the floor. So from a financial CFO perspective, I like those kind of deals because they have both components. There's kind of like an option on top of the underlying business that you purchased.

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

Got it. I wanted to get into etrasimod, the Arena acquisition as well. But maybe just before that, it's clear, Bristol came out recently, they had to lower the guidance across several of the launches that are ongoing.

Has there been any consideration on your end on just across the board as you look at it higher level that considering where the stock is and where the expectations are right now, could this be a good chance to maybe recalibrate some of the expectations on some of these launches as well? Or do you feel reasonably comfortable that expectations are just fine and you guys can track it?

David M. Denton - Pfizer Inc. - CFO & Executive VP

Yes, no, I don't think on -- particularly the ones that we just discussed, I don't think there's any need to adjust those. I think what we've -- what we have learned, and maybe I'll put my reflection hat on for a moment as I go through 2023, is that as we think about 2024 is making sure that we give investors a line of sight to our expected performance but set reasonable, achievable expectations around both revenue and earnings progression and give some clarity around the different components of our business. Because I think it is important to understand how our non-COVID business is expected to perform.

I think it's -- just because of the variability around the COVID franchise, I think it'd be important to understand what we expect to happen around that franchise and give you some underlying assumptions around that. And then importantly, Seagen is going to be layered on top of that. So giving investors an insight as we layer that -- the Seagen acquisition on top of -- for Pfizer, what is the -- what are the puts and takes to kind of top line and bottom line as we think about that acquisition coming online in our business model.

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

Got it. Okay. So no -- so you don't necessarily, based on some of the important launches that are going on, you don't see any...

David M. Denton - Pfizer Inc. - CFO & Executive VP

No. I think importantly, we have -- obviously, Pfizer is probably a little different than some in the sense that we have a lot of products, right? And so we shouldn't just be -- I don't think that just looking at each individual product is probably the way to value Pfizer. I think the way to step back and think about Pfizer is we have a portfolio of products of which we believe that in totality, we can grow successfully and have meaningful returns over time.

Within that portfolio of products, there's going to be some products that are going to do extremely well and there's some products that, honestly, are probably going to lag. And we need to make sure we invest appropriately behind where we have the biggest opportunity to accelerate our performance and I'll say weed and/or pivot in products where maybe they're struggling. And we should reinvest maybe differently or support that product differently. And I think that's how we look at it more from a portfolio standpoint than just kind of the sum of all the products.

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

Got it. So maybe instead of going down line by line on some of the new launches, can I ask you -- and this is kind of where the discussion started when I said Street thinks there's only one pipeline program. And I think part of the reason why that's happening is there's a perception that a clear line of sight on a \$5 billion-plus drug might potentially be an oral GLP. Is there another one internally that you guys think has a realistic chance of being that? And I'll ask you a follow-up on...

David M. Denton - Pfizer Inc. - CFO & Executive VP

Yes. Listen, I don't know if I'm going to go into that level of detail with you today. I mean obviously, there's a lot of different opportunities and different assets that we have in early and, I'll say, mid-stage development at this point in time that we're not going to sit back and put a number on at this point.

It's probably, quite honestly, too early to tell. And I think what's happened is you will -- as we kind of kicked this session off, everybody's gotten excited about the obesity market and the size of that, which it will be a big market. There's no doubt. There'll be multiple players, there'll be multiple competitors, there'll be multiple ways to access that market. But it's one of many markets.

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

Makes sense. I think there's this perception in the marketplace that perhaps you guys were falling -- and now I'm thinking like potentially larger pipeline opportunities that you are falling behind sort of from a timeline perspective. But now given the opening they've left on the 6- to 7-year-olds in a scenario where your trial is a lot more consistent, this is a type of pipeline program that Street is not spending enough time on, and this is a readout coming up. Could you...

David M. Denton - Pfizer Inc. - CFO & Executive VP

Which one is that, I'm sorry?

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

The DMD.

David M. Denton - Pfizer Inc. - CFO & Executive VP

DMD. Okay. Yes.

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

Could you speak to sort of the type -- again, I'm not going to go down the nuances of mini versus micro-dystrophin...

David M. Denton - Pfizer Inc. - CFO & Executive VP

Yes.

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

The debates you're hearing internally, the type of perception internally on whether there's an opening now that didn't exist perhaps a few months ago...

David M. Denton - Pfizer Inc. - CFO & Executive VP

Yes, there might be. I think it's probably -- again, you're going into levels of details we're probably not going to discuss today. But we'll see. The market -- obviously, the market is evolving in this space, the science is evolving in the space. And we have exciting programs to hopefully help these young boys who suffer from this condition, and we'll see where it goes.

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

Okay. Makes sense. In terms of sort of the P&L evolution over the next 3 years, this is again not a guidance question but more in terms of LOEs that are hitting. Do you intend to retain a certain EPS flow regardless of the year? How are you thinking about that dynamic?

David M. Denton - Pfizer Inc. - CFO & Executive VP

Yes, I would say I would look at it more from an operating profit perspective. If you look at kind of our operating margins, our operating margins have been squeezed over the last several years.

What we're focused against at the moment and part of this is focused on our cost realignment program but is to get back to pre-COVID margin levels with a slight little nuance to that is the COVID franchise, particularly the vaccine product, has a lower margin given our partnership with BioNTech.

And if you adjust -- mix adjust for that, I'm still targeting to get back to pre-COVID margins with that slight adjustment. And that is making sure that we have -- we're investing behind what I consider resilient revenues, not revenues that kind of come and go on an annual basis and importantly, that we invest appropriately to get to those levels of margin rates.

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

Got it. So okay. So margin is where the most focus is at. And you're not necessarily saying let's have a certain minimum EPS regardless of the '25 or '26 in terms of the LOE hits?

David M. Denton - Pfizer Inc. - CFO & Executive VP

No, that's not how -- it's just not how we're looking at it from that perspective. And again, we gave a pretty specific kind of, I'll say, stair step from '25 to '30 around kind of our growth expectations on the revenue side. And we've deployed a lot of capital against those growth expectations.

I do expect that now that the capital has been deployed and we began to deliver upon our expectations, in the back half of the decade, the company should start to generate significant levels of cash flow. And that cash flow can be used in a couple of different ways, back to being more, I'll say, shareholder-friendly utilization, whether it be enhancing the dividend growth or enhancing share repurchases or investing back into the business in areas where we see really good line of sight of returns.

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

Got it. So Dave, in a scenario, let's say, fast forward several months, let's say there's a scenario in which excitement around some of the pipeline growth drivers did not build sufficiently enough, and there remains a fair amount of pressure on the stock as we've seen in the past few months. Do you envision the scenario, is there a potential possibility where you even explore a more accelerated buyback to manage your share count such that it also enables you to have a certain EPS?

David M. Denton - Pfizer Inc. - CFO & Executive VP

I don't believe so. Not in the near term, no. I think what's more -- I think at the moment, obviously, we're very focused on our dividend performance and our dividend growth over time. So we'll certainly support that. Then secondly is making sure that our balance sheet returns to a level that I think is appropriate for Pfizer.

And we'll be, in the next several quarters, just given the near-term close and deployment of all that capital to support the acquisition of Seagen, we'll be higher than -- from a leverage perspective than I would want long term. So our focus will be to delever a bit over time.

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

So leverage -- remind us the leverage right now, where does it stand pro forma?

David M. Denton - Pfizer Inc. - CFO & Executive VP

Well, pro forma, you need to step back and say, listen, we had several onetime events that happened this year. So our leverage is probably, mathematically, if you did the calculation, somewhere around 7x, but those have onetime conditions in there. Excluding that, probably high 3s, low 4s.

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

High 3s, low 4s. And -- okay. And that's basically the gating factor to something much more accelerated from a repurchase perspective?

David M. Denton - Pfizer Inc. - CFO & Executive VP

Correct. That is correct.

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

Makes sense. Okay. And it's not like a certain share price could trigger some meaningful change in plans or anything?

David M. Denton - Pfizer Inc. - CFO & Executive VP

No, I -- listen, I -- if you know my history, I'm a person that believes strongly that share repurchase is a really effective way to deliver a lot of value to shareholders, and I would love nothing more than to lean into a share repurchase program. The reality is I have this gating factor around my leverage. And I think the leverage needs to come down before I can do that.

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

Got it. Got it. Got it.

David M. Denton - Pfizer Inc. - CFO & Executive VP

I just want to be very clear, and I want to make sure I set everybody's expectations around that.

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

Got it. And also -- and again, this may not matter so much from a bigger picture perspective. But as we think about the evolution of some of the cost cuts that have already been announced and the cadence in which they start to kick in and actually impact, can you speak to that?

David M. Denton - Pfizer Inc. - CFO & Executive VP

Yes. So we announced that versus our guidance levels of August of 2023 that we would take out approximately \$3.5 billion of cost between R&D and expenses. \$1 billion of that will happen this year, half of that in R&D and half of that in SI&A and \$2.5 billion to happen in 2024.

And think about that as the net cost cut. We may actually cut more than that, but we have the optionality to potentially reinvest some of those cost cuts if we see an appropriate project with a good return. So we're committing to the \$3.5 billion.

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

Okay. Excellent. I want to start to wrap up the discussion, but there's a couple of things I do want to touch up on. One is a topic which is no longer a Pfizer topic, but it has clearly driven some of the sentiment on the stock, which is clearly, the R&D team at Pfizer saw the TL1A data as it came in. And clearly, the way Pfizer saw it was very different than externally how the market saw it and how investors saw it.

How did you guys reflect back on that? Was there anywhere in that process that was broken because not just in terms of how the clinical data was analyzed internally, but also the disconnect versus external and how rapidly that transaction was done? And there's been feedback even at this conference, I would tell you, from strategics that, we didn't get a look, and this could have been something we could have partnered with...

David M. Denton - Pfizer Inc. - CFO & Executive VP

Good question. I think, obviously, the TL1A product, we essentially gave away to Roivant in exchange for 25% of the company. Ultimately, they are in the process of selling that asset. And so the net effect of that is Pfizer is going to get \$1.7 billion gross, if you will, from a proceeds perspective.

The reality is it's a project that we had full visibility into the data. We understood the product. We understood what we thought the market conditions were with the product. We thought this was the best way to proceed at that point in time.

The market is dynamic. The market changed within a year pretty significantly. But I say, we could have killed the product and just shut it down and moved on. We actually, in this case, due to what we did, we're actually going to yield \$1.7 billion in cash from a gross perspective. And that's kind of -- that's the reality and that's where we are.

I think we went into it eyes wide open at the time. I don't think we had a clear set of data, a clear set of analysis on what we thought the market was going to -- how the market was going to behave. And the market is dynamic, and it changed.

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

Got it. And this is a decision that's driven by R&D and the biz dev team? Or are you involved...

David M. Denton - Pfizer Inc. - CFO & Executive VP

Yes, I would say it's a group decision. It's...

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

Were you part of those discussions?

David M. Denton - Pfizer Inc. - CFO & Executive VP

Sure. I think we, as Pfizer, we have multiple ways in which these decisions are made. And sure, yes. I'm kind of leader management, I can take accountability for those decisions for sure.

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

Makes sense. Maybe just as we start to wrap it up then, how do you reflect back on sort of the last -- your tenure here at Pfizer and how you're thinking about where is that disconnect between how Street is looking at Pfizer versus how you're looking at it internally? And you -- in some ways, you also have a fair amount of external perspective as well.

David M. Denton - Pfizer Inc. - CFO & Executive VP

Yes. I guess a couple of things. Let's go through pros and cons of -- kind of my tenure is now 1.5 years. So a lot has changed in 1.5 years. I would say as I look at the company, the company has done a lot of great work and has done a lot of great work really with a focus to growth in the back half of the decade.

So if you really think about all the investments we did -- obviously, the company did great work to create the COVID vaccine and PAXLOVID. But it really took the, I'll say, the dividends out of that -- those 2 products and reinvested in the business and have reinvested in the business to support growth in the years of '25 to 2030.

So it's done -- and I'd say let's check the box on that. And we've really done a lot of work to do that. And if you've laid -- if you've seen our graph around the launches that we've invested behind and the business development work that we've done, we're going to generate a ton of revenue and ultimately cash flow coming out of that.

I think if I sit here in my little armchair saying what maybe we could have done different is we probably didn't look so much in the very, very near term. I think we probably could have been a little bit more focused in the here and now, and that might have made a little bit of difference from a share price perspective.

And I think we're now into the point that we need to start proving and demonstrating kind of our performance across both the launches and our BD efforts and get Seagen closed, and you begin to see the power of what we're going to generate in that time frame, back half of the decade.

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

Do you think you guys ended up spending more time on the oral GLP than you should have looking back?

David M. Denton - Pfizer Inc. - CFO & Executive VP

No. In time in what respect? In R&D time?

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

Just in terms of the time spent on -- in any discussion that's happened over the last few months and that sort of ends up taking vast majority of the...

David M. Denton - Pfizer Inc. - CFO & Executive VP

Well, I don't know that it's taken a vast majority of the R&D time. I think what it has done, it's been such a topic with investors and sell-side analysts, that it's taken a disproportionate amount of conversations in events like these.

But I think importantly, internally, we've been focused against all of our assets in the clinic. And so I don't think we've dramatically changed resources into that product or into that space based on the hype, if you will, right now, right this second.

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

Got it. So I've intentionally, Dave, not gone down the direction of certain R&D specific drug nuanced topics. But one thing I do want to ask you from a capital allocation perspective is we know Lilly's oral GLP hit about mid-teens weight loss. And its liver profile and overall safety profile was fine. There were a couple one-off liver events, but this is broadly okay, and they're passed into Phase 3.

Since it -- this will be a very large undertaking from an R&D perspective, to the extent danuglipron moves into Phase 3. Has the management decided a certain set of cutoffs that have to hit either on weight loss and/or on liver profile for this to move to Phase 3? Because there's clearly a big decision coming, presumably up to \$1 billion in R&D allocation that has to happen to this. Or would you rather put that towards some of the earlier GLPs? Like how are you thinking about that?

David M. Denton - Pfizer Inc. - CFO & Executive VP

We'll let the data guide us. I think we're just too early to talk about that. And once we see the data, we'll analyze what it says and...

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

But there always are criteria for go, no go...

David M. Denton - Pfizer Inc. - CFO & Executive VP

We clearly do. Not just with this product in this program, with all products and programs. That's just how R&D works.

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

Excellent. Excellent. Excellent. Well, unless there's anything else, thank you so much for joining and looking forward to big '24, hopefully.

David M. Denton - Pfizer Inc. - CFO & Executive VP

Me too.

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

All right.

David M. Denton - Pfizer Inc. - CFO & Executive VP

Thank you.

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

Fantastic.

DISCLAIMER

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2023, Refinitiv. All Rights Reserved.