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PFE.N - Pfizer Inc To Host Investment Analysts Call

EVENT DATE/TIME: OCTOBER 16, 2023 / 12:00PM GMT

OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good day, everyone, and welcome to Pfizer's Analyst and Investor Call to review amended U.S. government PAXLOVID Supply Agreement and updated full year 2023 guidance.

Today's call is being recorded. At this time, I would like to turn the call over to Francesca DeMartino, Chief Investor Relations Officer and Senior Vice President. Please go ahead, ma'am.

Francesca DeMartino - *Pfizer Inc. - Chief Investor Relations Officer & Senior VP*

Good morning, and welcome to our call to review Pfizer's amended U.S. government PAXLOVID supply agreement and updated full year 2023 guidance. I'm Francesca DeMartino, Pfizer's Chief Investor Relations Officer. On behalf of the Pfizer team, thank you for joining us. This call is being made available via audio webcast at [pfizer.com](https://www.pfizer.com).

The news and guidance update that we will be discussing today was issued in a press release last Friday, which is available on our website at [pfizer.com](https://www.pfizer.com).

Leading today's call are Dr. Albert Bourla, our Chairman and CEO; and Dave Denton, our CFO. Albert and Dave have some prepared remarks, and we will then open the call for questions. Joining for the Q&A session, we also have Doug Lankler, our General Counsel.

Before we get started, I want to remind you that we will be making forward-looking statements and discussing certain non-GAAP financial measures. I encourage you to read the disclaimers in the press release we issued on Friday and the disclosures in our SEC filings, which are all available on the IR website on [pfizer.com](https://www.pfizer.com).

Forward-looking statements on the call speak only as of the date of the call. I also want to remind you that today's call will focus solely on the topics covered in Friday's press release. We are still finalizing our third quarter results, and therefore, may need to defer answering some of your questions until our upcoming third quarter earnings call, which is scheduled for October 31.

With that, I will turn the call over to Albert.

Albert Bourla - Pfizer Inc. - Chairman of the Board & CEO

Thank you, Francesca. Hello, everyone, and thank you for joining us today. Last Friday, we announced an important agreement with the U.S. government that provides us with a clear pathway to U.S. commercialization of PAXLOVID next year. We believe this agreement will make it easier for eligible patients to access PAXLOVID, will ensure that the United States will have a robust stockpile for future use and helps provide more clarity on the commercial market for our COVID-related products.

The commercial transition will begin in November of 2023 as the U.S. government begins to discontinue the distribution of EUA-labeled PAXLOVID. Pfizer will ensure commercial readiness by providing NDA-labeled commercial supply to all channels by the end of 2023. However, EUA-labeled PAXLOVID will remain available free-of-charge to all eligible patients until the end of this year. Therefore, we expect only minimal uptake of NDA-labeled commercial product before January 1, 2024.

Ultimately, this transition to commercialization will enable more pharmacies and other health care side to stock PAXLOVID, unlocking access for a greater number of eligible patients across the U.S. The price of PAXLOVID sold to privately insured commercial patients will be negotiated with payers. The agreement has an important component, which is a noncash transaction, whereby the U.S. government will return an estimated 7.9 million unused EUA-labeled PAXLOVID Treatment Courses at the end of this year at the original contract price, and will receive a volume-based credit from Pfizer for NDA-labeled treatment courses to be supplied on behalf of the government in the future.

This credit will be used by the U.S. government: First, to distribute PAXLOVID to federal entities and operate a patient assistance program on behalf of the U.S. government for the uninsured and underinsured from 2024 through 2028; second, in 2024, to allow patients insured through federal programs, such as Medicare and Medicaid, to continue to receive treatment free of charge through this same program.

Separately, Pfizer will provide the U.S. government with 1 million NDA-labeled PAXLOVID treatment courses for a strategic national stockpile in 2024 at no cost to the taxpayer, and refresh stock prior to expiry through 2028 or earlier if the stockpile [is depleted].

By 2024, Pfizer will recognize revenue as PAXLOVID commercial product is delivered to U.S. privately insured patients at prices negotiated with payers. Also beginning in 2024, any PAXLOVID distributed in the U.S. outside of commercial channels will be applied against the U.S. government's credit. Revenue will be recognized by Pfizer as these treatment courses and the stockpile treatment courses are delivered based on the original contract price adjusted to reflect the stockpile.

This agreement will affect Pfizer in a number of ways, including providing us with greater clarity regarding the commercial market for this important treatment and reducing future uncertainty for our broader COVID-19 portfolio.

Through 2023, we have taken actions to continue to mitigate the uncertainty in our COVID-19 portfolio. As previously announced, the European Union contract for Comirnaty supply was renegotiated with amended purchasing obligations through 2026. The U.S. market for Comirnaty transitioned to commercially available product in September 2023. And now this amended agreement with the U.S. government provides us with a time frame for commercializing PAXLOVID as well.

Finally, by the end of this year, we expect additional clarification on the expected trends for global vaccination and treatment rates. We believe the rates we see this fall will provide a solid foundation for future expectations. We have come through the period of fear that defined the early days of COVID, where everybody wanted to be vaccinated very quickly. In fact, we are right now in the middle of COVID fatigue where everyone wants to forget about the disease, and we are experiencing a peak of anti-vaccination rhetoric. Therefore, we believe those who are getting vaccines and medicines in the current environment are people who believe in the value of protection and treatment and will continue this behavior in the years to come.

Given that clarity, combined with the lower-than-forecasted demand for both PAXLOVID and COMIRNATY we are currently experiencing globally, we have revised our full year 2023 guidance and launched a program designed to reduce our cost and align them with our longer-term revenue expectations.

At this time, I will turn it over to Dave Denton who will provide more details on guidance and our cost realignment program. David?

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

Thank you, Albert, and good morning. As we announced on Friday, we now anticipate our full year 2023 revenue to be in the range of \$58 billion to \$61 billion compared to our prior range of \$67 billion to \$70 billion. The reduced range is solely due to the expected performance of our COVID products. We're reducing our full year 2023 revenue expectations for PAXLOVID by approximately \$7 billion, and for COMIRNATY by approximately \$2 billion.

Now for PAXLOVID, the \$7 billion reduction includes an estimated \$4.2 billion noncash revenue reversal. This will be recorded in the fourth quarter of 2023 for the return of approximately 7.9 million unused EUA-labeled treatment courses from the U.S. government's inventory.

It is important to note that our non-COVID product portfolio remains strong. We continue to expect these products to achieve year-over-year operational revenue growth in the range of 6% to 8% in 2023. Due to lower-than-expected utilization for our COVID products, we have recorded a noncash charge of \$5.5 billion to cost of goods sold in the third quarter of '23. This charge is primarily related to inventory write-offs for PAXLOVID of \$4.6 billion and, to a lesser extent, for inventory write-offs and other charges for COMIRNATY of \$0.9 billion. We also expect to deliver approximately \$1 billion in savings in 2023 through our cost realignment program versus our prior guidance, which I'll speak about in just a moment.

Our revised guidance also reflects anticipated improvements in our effective tax rate on adjusted income for '23 from approximately 15% in our original guidance to approximately 12%. Due to the combined impact of these items, we now expect full year '23 Adjusted diluted earnings per share to be in the range of \$1.45 to \$1.65 compared with our original guidance range of \$3.25 to \$3.45.

The change represents a reduction of \$1.80, with \$1.46 associated with the onetime impact from the return of PAXLOVID from the U.S. government and the write-offs, with \$0.34 from the lower-than-expected COVID revenues for 2023.

Now let me touch briefly on the cost realignment program we also announced on Friday. During our second quarter earnings call, we shared that we were carefully monitoring the demand for our COVID products. At that time, we also said we were preparing, if needed, to adjust our '24 total operating expenses to align with our longer-term revenue expectations.

Given the new realities that Albert just mentioned, we now know that we need to adjust our cost base accordingly. We expect our enterprise-wide program to deliver annualized targeted savings of at least \$3.5 billion by the end of 2024. This includes the \$1 billion of targeted savings in '23 that I mentioned earlier, and an additional \$2.5 billion in targeted savings to be realized in 2024. This comprehensive cost realignment program will

touch all parts of the business in all regions. We have established a program management office comprised of senior leaders from the company to help ensure these savings are realized.

The onetime cost to achieve these savings are expected to be approximately \$3 billion, which will primarily result in a cash outlay in 2024. These costs will include severance as well as implementation costs. We will continue to revise our estimates and our targeted savings in the associated costs over the remainder of this year and will incorporate them into our full year guidance for 2024.

Lastly, I want to point out that our revised guidance and cost realignment program have no impact on, and have not been impacted by our plan to acquire Seagen. We remain extremely excited about the deal, which reflects our significant commitment to helping lead the battle against cancer. We continue to expect the transaction to close later this year or early in 2024, subject to customary closing conditions, including the receipt of all regulatory approvals. We have raised \$31 billion in acquisition financing so far and continue to expect incremental 2030 revenues in excess of \$10 billion and cost efficiencies of \$1 billion without impacting R&D programs.

And with that, I'll hand it back to the operator so we can open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We'll take our first question from Robyn Karnauskas of Truist Securities.

Robyn Kay Shelton Karnauskas - Truist Securities, Inc., Research Division - Research Analyst

I think as we've digested all the news over the weekend, I think the big picture question that we had was how do you actually think about coming up with a formula to guide for next year? How do you [put with certainty] that's how PAXLOVID will be used, and how testing will be done and how the vaccine business will shape up? It seems like there's so many unknowns that you may not be able to give a great job of guiding for next year given there's so much uncertainty to start off with that big picture question.

Albert Bourla - Pfizer Inc. - Chairman of the Board & CEO

Yes. First of all, we will provide guidance for next year when time comes. And usually this time, it is when we report our fourth quarter results. But I think when it comes to COVID revenues, I think you have enough elements to make your own calculations right now because a lot of the uncertainties have been -- that they were this year now have been eliminated. And some of them, by the end of the year, will become more clear. Let me go over more. COMIRNATY, EU you have now a way to calculate it because the contract has been renegotiated, and there are purchase obligations every year so that we can calculate this.

On the U.S., the uncertainty was, are we going to commercialize? That happened in September. So now we are into the market with the new price that you will see this year. The only uncertainty that remains for the vaccination, it is vaccination rates. And those, we are going to see them how that evolve by the end of the year. I think it is fair to say that whatever will be the vaccination rates this year, this is our expectation, will become a solid foundation of what will be the vaccination rates for the years to come because those are the people that truly believe, as I said, in vaccination, the value of vaccines because we are really far away from the COVID fear, but everybody wanted it. We are in the middle of the COVID fatigue, nobody wants to speak about COVID. We have the peak of anti-vaccination rhetoric. With all of that, those people that will go to get vaccine this year, I think, will go get next year as well.

Now let's move to PAXLOVID, there was a clear uncertainty what happens with the U.S. stocks that were -- or government stocks that were quite significant. And we estimate at the end of the year will be 7.9 million courses that are enough for an additional year of utilization, right? So this also uncertainty is going away. We will wait now to see how the treatment rates evolve and then you can calculate what will be the treatment rates for

the next year and then you should apply the new prices and for the commercial that you don't know, but you will find out pretty soon because we are currently starting negotiations with the payers. And also for every Medicare or Medicaid or uninsured patients that we will be providing product in 2024, we will be recording sales for these volumes and the price is approximately pandemic prices. It is a pandemic price of \$530 as you know, adjusted slightly for the inventory for accounting -- of the stockpile for accounting grade.

So I think you have enough elements right now to estimate the future revenue COVID in '24 and beyond. And that by the end of the year, when you have vaccination and treatment rates that are more clear, and you can do even more accurate job.

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

Robyn, this is Dave. Maybe I'll just emphasize a couple of points. One is, clearly, the COVID products will be informed by the remainder of the year as we commercialize these products. As we've always anticipated these products become more standard and more consistent, so we'll be able to predict them better. And third, I think we've learned a lot over the last 1.5 years of how these products will perform. We -- our expectation is we will model that. We will come into the market next year with guidance that we believe is appropriate and conservative and give you the risk and opportunities associated with that.

Operator

We'll take our next question from Evan Seigerman of BMO Capital Markets.

Evan David Seigerman - BMO Capital Markets Equity Research - MD & Senior BioPharma Research Analyst

So you indicated that we're reaching a peak under vaccination rate in your prepared remarks. Does this imply that you think we could actually see an increase in vaccination rates going forward? Or should this be the new normal? And as it comes to PAXLOVID, can you walk us through kind of what has changed from second quarter to now? Is this solely driven by a renegotiation of the government contract? Or are there other factors at play that really drove the guidance cut?

Albert Bourla - Pfizer Inc. - Chairman of the Board & CEO

For the new normal of vaccination rates, I think that, as I explained, because of the circumstances of this year, whoever would get vaccines likely are the people that they are truly believers in the value of the vaccine. So that should be a good foundation, for conservative, if you want, estimation of what should be the vaccination rates going forward. Are there chances that this could become even higher or not, I think only either combination vaccines, that could be a significant catalyst into the market, combination with flu and RSV. But right now, what we assume it is that vaccination rates of next year will be similar to that our vaccination rates of this year. I will ask David to speak a little bit about what changed, was it only the U.S. government or what else we get under that...

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

Yes. As it relates to our guidance change, the vast majority of the change within our guidance is related to the U.S. government renegotiation of the agreement. But clearly, underlying that was some change in what we see from a utilization perspective for patients for both PAXLOVID and COMIRNATY for the balance of this year.

Operator

We'll take our next question from Carter Gould of Barclays.

Carter Lewis Gould - *Barclays Bank PLC, Research Division - Senior Analyst*

I guess for Dave, I don't know if you can give some additional color on the source of the cost cuts, either between R&D and SG&A? And any -- just to confirm, will that full \$3.5 billion hit non-GAAP, just wanted a clarification on that as well.

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

So I guess, first, on the \$3.5 billion, yes, it will all hit non-GAAP. So it will be within our run rate. At this point in time, we're not going to clarify any additional detail around the cost program in the different buckets.

I will tell you that we have a fairly comprehensive program because we've been planning for this for a while. We have senior leaders across the organization engagements within this program with a very comprehensive project management office. We're executing our plans both this year to realize the \$1 billion savings as well as, as we wrap into 2024 to get the incremental \$2.5 billion. I will point out that while we're -- this is a comprehensive program across both R&D and SI&A, our core research particularly as it relates to oncology, remains intact is you can well imagine, we made a big investment in oncology. We're fully supporting the oncology business, and we think we have a big opportunity to grow that business over time.

Operator

We'll take our next question from Chris Shibutani of Goldman Sachs.

Chris Shibutani - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

The cost savings that you've outlined, obviously, you've discussed what the implications are for '23 and '24. Would it be reasonable to expect that there would be further opportunities for savings beyond 2024, particularly as you're integrating potentially so many businesses, including Seagen, et cetera?

Albert Bourla - *Pfizer Inc. - Chairman of the Board & CEO*

First of all, everything is excluding Seagen. Seagen has nothing to do with any of these effects. Now, for the Pfizer part, clearly, by '24, as David explained, you should calculate the cost base combined R&D and SI&A, that it is \$3.5 billion, less than the midpoint of the combined previous guidance. Our previous guidance that -- R&D number, and SI&A number, if you add those 2, in '24, you should expect \$3.5 billion less and in '23, you should expect one of this already to happen, right? So that's how to calculate. I hope I answered -- anything to add David?

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

No. That's it.

Operator

We'll take our next question from Colin Bristow of UBS.

Colin Nigel Bristow - *UBS Investment Bank, Research Division - Analyst*

To not beat the same drum here. I just wondered if -- as we think about PAXLOVID here, testing rates in the U.S. are down around 19% year-on-year and continue to trend lower. Can you just give us some idea of where you expect this to reach steady state? And then what proportion of current PAXLOVID prescriptions are being written to patients without a test confirmed diagnosis of COVID?

And then just sort of a point of clarification on the cost savings and the cost-cutting program. We get lot of questions -- some confusion. You're spending \$3 billion to achieve \$3.5 billion in cost savings. And then the ongoing run rate, is that \$3.5 billion or \$2.5 billion? It sounds like in your last answer, it's \$3.5 billion, but if we could just sort of draw a line under it and clarify that, that would be great.

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

So just real quickly on the cost savings program, the run rate will be \$3.5 billion in 2024 and beyond.

Albert Bourla - *Pfizer Inc. - Chairman of the Board & CEO*

Thank you for clarifying that. We were very clear, actually. It's almost like, if we are giving you guidance for the combined OpEx next year, right? So it's going to be whatever is the midpoint of the previous guidance, minus \$3.5 billion. And what is already -- we gave you guidance. For this year is going to be whatever was the midpoint of the combined R&D and SI&A minus \$1 billion, right? So \$3.5 billion will be the running rate. Now on the PAXLOVID, the question is when are we going to reach a stable state of utilization. I think we have, right now. It was lower than what we thought, that we had.

Last year, approximately 11-point something, 11.8 million courses were distributed in the world. And right now, we are trending to slightly above that so far this year. It's going to be slightly below in the U.S., it's going to be ahead in international. But we believe that we have reached a quite steady state that can become a foundation for calculating future utilizations.

Operator

Our next question is from Umer Raffat of Evercore ISI.

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

I appreciate you clarifying Colin's question. I feel like that was very important because there was an earlier implication that the annualized cut is \$2.5 billion. So I appreciate you clarifying it's \$3.5 billion. My question is, is that a gross cut? Or is that a net cost cut to Pfizer?

Albert Bourla - *Pfizer Inc. - Chairman of the Board & CEO*

I guess what -- mean, gross or net, it is if that we will have -- those rates that has cuts and then we will reinvest more money on top of that. No, that's what we said, that we expect next year's cost base to be \$3.5 billion less than the combined base guidance -- midpoint of guidance of R&D and SI&A that we gave until recent before we revise it on Friday.

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

So it is net.

Albert Bourla - Pfizer Inc. - Chairman of the Board & CEO

It is net.

Operator

Our next question is from Terence Flynn of Morgan Stanley.

Terence C. Flynn - Morgan Stanley, Research Division - Equity Analyst

Maybe just a 2-parter for me. So just wondering, Dave, does this bring you back to pre-pandemic operating margins after adjusting for the COMIRNATY profit split? And then on PAXLOVID, in the commercial setting, can you give us any sense of how the negotiated price, where that might shake out?

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

Yes. So I'll talk about the operating margin, specifically. We have not obviously provided guidance for 2024. So there'll be obviously puts and takes to that. So we'll hold on to that until we give 2024. I've been very clear that the long-term outlook of our business is to get back to pre-pandemic levels adjusted for our mix, primarily the vaccine program because it does carry a lower volume -- a lower gross profit given our partnership.

Albert Bourla - Pfizer Inc. - Chairman of the Board & CEO

Thank you, David. Now on PAXLOVID and on the pricing. Look, there are 2 components, right? '24 will be a price that we apply as we recognize revenue to Medicare and Medicaid patients and uninsured, right? If you see the current IQVIA reporting, Medicare and Medicaid account for approximately 40% of PAXLOVID's rate. That's 35% and 5%, correct. Those we pretty much know the price. The price will be the pandemic price adjusted, as I said, slightly for the inventory. So that we know. And that will be applied in '24 on. Now in '24 in addition to that, we will have the commercial plans that are the remaining of the volume, plus some additional patients. And over there, the price will be known pretty soon. We are starting negotiations with payers. So there will be list reprice and of course, there will be rebates that will apply to this list price in the venture we have [the net] that we will see when we give guidance, we will calculate that.

I want to clarify something. As we move to the year 2025, all Medicare and Medicaid patients will be receiving commercially available product, which means commercial price. So although in '24, the Medicare, Medicaid will be recognized revenues -- we recognize revenues with lesser likely price than the commercial.

In year '25, everyone will have the same price going forward. And we will be, in addition recognized revenues at the pandemic prices for underinsured and uninsured patients, but we will continue providing products through a patient assistant program that we will provide -- that we will operating on behalf of the U.S. government. And every product that will be given to this patient assistant program will go against the credit that the volume credit that the U.S. government received from us as -- will receive from us at the end of the year.

So I hope that this clarifies the situation. And I think, as I said, makes quite easy, I think, for everyone to start calculating. There are 1 or 2 elements that are still missing, the commercial price of PAXLOVID and there may be refined utilization rates of treatments and vaccinations.

Operator

We'll take our next question from Mohit Bansal of Wells Fargo.

Mohit Bansal - Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst

A few -- couple of questions for Dave. So is it fair to assume the majority of the cost-cum-cuts are coming from the COVID business? And then bear with me on this math. If I take the midpoint of your guidance for this year, cut the \$1 billion for this year and another \$2.5 billion for next year. And then if I add to \$2.5 billion of OpEx for Seagen, it seems like your OpEx could be roughly flat for '24 from '23. Is that fair?

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

So I guess, first on the split between COVID and non-COVID. As you know, we don't kind of manage our business that way. I would say that we're continuing to -- as I articulated earlier, our cost program is comprehensive. It's across our business, both COVID and non-COVID. But clearly, if you look at the trends and the current state of the pandemic, the patient need in our COVID business is less than what it was in the height of the pandemic. So we would obviously lean in and rationalize our cost base accordingly based on those dynamics. And then secondly, I think intellectually, the conversation you had around the midpoint is not -- is factually accurate. I think it's just too early at this point in time to give you some clarity around how and when all those costs will be integrated and combined when the acquisition is completed.

So more to come on that piece, but we'll be very transparent and make sure that you understand all the puts and takes as it relates to our cost base as well as our complete business as we cycle into 2024.

Albert Bourla - Pfizer Inc. - Chairman of the Board & CEO

Thank you, David. Again, to reiterate that everything that we are doing right now has nothing to do with the acquisition of Seagen, that's a completely different let's say, element. Close this year or next year, this is what Pfizer will look like. And then Seagen is an additional top.

Operator

We'll take our next question from David Risinger of Leerink Partners.

David Reed Risinger - Leerink Partners LLC, Research Division - Senior MD

So with respect to vaccine demand, given that many people avoid mRNA boosters due to fears about brief tolerability issues in the first 24 hours, could you provide an update on your efforts to minimize reactogenicity risk in both future COMIRNATY booster versions and also Pfizer novel mRNA vaccines for other diseases?

Albert Bourla - Pfizer Inc. - Chairman of the Board & CEO

Thank you very much. On the reactogenicity, first of all, I think that Pfizer BioNTech vaccine has -- not all vaccines are the same or reactogenicity, we believe it is -- not we believe. We know the numbers. It's quite good compared to other vaccines that are available. So I don't think we have a reactogenicity issue with our vaccine.

Clearly, we are working on -- and will continue despite the reduction of our operating expenses, we'll continue working, particularly on combination vaccines. Right now, we are the only company that has both an mRNA and an RSV, and we are working now on the flu. So clearly, as we are doing all of that, we are working on combinations that will help us enhance the -- how easy and convenient it is for patients to receive protection for respiratory diseases.

And that, of course, will potentially play a role in improving access to these vaccines, or utilization of these vaccines.

Operator

We will take our next question from Akash Tewari of Jefferies.

Ivy Wang - Jefferies LLC, Research Division - Equity Associate

This is Ivy on for Akash. We have 2. The first is on the revised guidance. So how do you feel comfortable about owing 2 billion revs cut in COVID vaccine sales this year, given there's already some write-down in EU? What's the implied U.S. demand in your view for this year and also on a go-forward basis?

The second one is for danuglipron. So can you confirm what you saw on a blended basis, what level of loss are you aiming for here? Will you move forward the program, it shows a loss of more than 10%? Or are you really targeting at 15%?

Albert Bourla - Pfizer Inc. - Chairman of the Board & CEO

Thank you very much. On your question, what is the assumptions for our COMIRNATY revenues. One, it is outside the U.S., yes, all is based on deliveries that are expected to happen from orders that have already been placed. So that's one part. On the U.S., it is more variable. And our assumption right now, it is that what we will see it is a vaccination rate similar to what we saw in '22 between September and that we launched in December. So pretty much that was at that time 15%. So before that September period, we have approximately 2% of people that were getting vaccinations. So right now, we have an assumption that approximately 17% of Americans will receive a dose. We think it's quite a safe assumption based on the trends, but of course, we'll wait to see until the end of the year.

Operator

We will take our next question from Tim Anderson of Wolfe Research.

Albert Bourla - Pfizer Inc. - Chairman of the Board & CEO

By the way -- excuse me, I forgot to answer about the danu. And the answer is, we are not commenting on that. This call is about the new guidance. As we have said multiple times for danu ,we are expecting data by the end of the year. So there's nothing new over that. Let's go to Tim.

Operator

Mr. Anderson, please proceed with your question.

Timothy Minton Anderson - Wolfe Research, LLC - MD of Equity Research

A couple for me. One of the challenges of the Pfizer model, it has been trying to understand the profitability of the COVID revenue stream such that we can ascertain what the underlying earnings are. And you have given that information very early on, then you pulled back. So can you give us any idea now what the profitability of this business is, not only in '23, but kind of '24 as well? And if you can't really give that information, at least talk about profitability of COMIRNATY versus PAXLOVID. I'm guessing PAXLOVID is much more profitable than COMIRNATY, but perhaps you can clarify.

And the second question, Albert, in your prerecorded video from a few days ago, you said we're at the peak of anti-vaccine and anti-treatment rhetoric suggesting that a trough. And I'm just wondering how you can really know that? To me, it seems like people not getting these products doing just fine, for the most part, might reaffirm that you don't need these products. So maybe those -- maybe that anti-treatment and anti-vaccine sentiment actually gets worse from here, not better.

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

So maybe I'll take the profitability of the COVID revenue stream. Clearly, we have guided it and been very clear on the revenue contribution of both COMIRNATY and PAXLOVID over time. We have not given the flow-through of those, but we will take that under consideration going forward. I will, to your point, given the partnership arrangement around COMIRNATY, the profitability associated with PAXLOVID, the flow-through of that is greater on that product than it is of COMIRNATY due to that arrangement.

Albert Bourla - Pfizer Inc. - Chairman of the Board & CEO

Yes. Now is it the peak of anti-vaccine rhetoric or we're going to see a little bit less or a little bit more or a lot less or a little bit -- or a lot more. I don't think that things will vary much. And I think that as you are moving towards another year distance from the COVID period, those things likely will go down. And in any case, we are taking assumptions that we are not going to maintain this. So we are assuming that things will be the same in the years to come, COVID fatigue and the vaccination rates. So the people that did it this year, will continue doing it. Next year, I think it is quite a safe assumption. But of course, assumptions is different thing and facts are different thing. That's why we are giving forward-looking statements.

Operator

We'll take our next question from Steve Scala of Cowen.

Stephen Michael Scala - TD Cowen, Research Division - MD & Senior Research Analyst

Apologies for asking again, but just for clarity, was the original plan for 2024's cost base to be higher, similar or lower than 2023, of course, excluding Seagen? Based on everything you've said, it sounds like similar, but can you confirm that?

And secondly, I'm curious why...

Albert Bourla - Pfizer Inc. - Chairman of the Board & CEO

Go ahead.

Stephen Michael Scala - TD Cowen, Research Division - MD & Senior Research Analyst

I'm curious why Pfizer did not cut the \$30 billion annual guidance for COVID revenue along with this news. You stated that you have enough information, and what we've learned year-to-date has been unfavorable. So why wait on that news?

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

Yes. So I think as you think about 2024, keep in mind that what we're anchoring on is our prior guidance of 2023 for cost. We're taking \$1 billion out of '23 and an inflow of \$2.5 billion out of '24. So you should expect us to see those materialize as we give guidance for 2024. And then I think -- I think you're relating -- the \$30 billion comment is really related to the longer-term outlook of the COVID franchise in the future.

I think, at this point in time, I think it's safe to say that we are now rebaselining our outlook for COVID. We are now looking at the trends that we see of these products going into the hands of patients commercially. So I would say that we could start fresh as we think about our guidance coming out of '23, going into '24 longer term.

Albert Bourla - Pfizer Inc. - Chairman of the Board & CEO

And Steve, I see that there are a lot of questions coming, is it gross? Net? Et cetera. So I think is very, very clear. Let me try to say it also with some numbers approximately. The combined cost base was approximately \$27 billion in sales, right? I think it was the midpoint \$13 billion for R&D and around \$14 billion plus for SI&A. So a \$27 billion was the combined. So you should expect that we will end up the year according to the new guidance instead of \$27 billion in sales, \$26 billion in sales. And you should expect that we will have a cost base combined for next year, \$27 billion minus \$3.5 billion, \$27 billion in sales, minus \$3.5 billion. That will be the net. It's almost, as I said, like giving you guidance. This is the best. At least, we don't say that this will be the number but we said that at least \$2.5 billion next year in addition to the \$1 billion that we're having this year. So \$27 billion net in sales minus \$3.5 billion should be at least. Dave?

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

And Steve, let me just reemphasize on the COVID business. It's clear that there are going to be unmet patient needs for COVID going forward. I think the question is how big that business is on an annual basis going forward. Think about our business, I think, in 2 pieces. One, a core business that has a lot of products that is generating in this year, a growth rate of 6% to 8%. With a COVID option on top of that, that will allow us to book additional revenue, profits and cash flow that we can then utilize to reinvest in our core business to allow us to grow more rapidly over time. And that's how we're thinking about this business going forward, and I encourage us all to kind think about that as we model our business in future periods.

Operator

We'll take our next question from Kerry Holford of Berenberg.

Kerry Ann Holford - Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst

A couple of questions on PAXLOVID, please. So what is the risk that ex U.S. governments now follow the U.S. path and request to refund or [rebasing] PAXLOVID orders. And I guess, how much flex would you prepare to give other governments here? And then related to this, can you confirm how many treatment courses of PAXLOVID are still sitting in the channels today following the announcements right.

Albert Bourla - Pfizer Inc. - Chairman of the Board & CEO

Thank you very much. On the -- what other -- what governments will do around the world and health authorities I can't tell, right? Right now, we have already 23 markets that we have moved into commercial arrangements. So they are not anymore under that government a free product, right? And we expect as the stocks of this -- of the governments that they are not on commercial -- let's say, commercialization in their countries are depleted, also, will move to normality and over there. Now as regard, the stocks that are in the channels, the 7.9 that we estimated we will take back includes what is in the channels. So right now, it's not what is in the U.S. inventory at the main warehouses, but also what is in the channel. All of that, we'll take back because following January -- on January 1, none of this product will be available anymore. It needs to be back so that it can be replaced with the NDA-labeled product.

Operator

We'll take the next question from Andrew Baum of Citi.

Andrew Simon Baum - Citigroup Inc., Research Division - Global Head of Healthcare Research and MD

So a question for Albert. You highlighted that oncology has been ring-fenced. I know you've disposed of early-stage assets in gene therapy. You're obviously downsizing the Array infrastructure. Taking out 13% of your OpEx base is substantial. So I'm just curious as to where is the focus going

to be on what franchises? And will you make further use of innovative funding models? I note the recent deal with Roivant in order to give yourself broader bandwidth whilst having a control of your cost base. So just some direction on the impact for the pipeline.

Albert Bourla - Pfizer Inc. - Chairman of the Board & CEO

Yes. Thank you, Andrew. Look, we will provide, as I said -- as David said, some details about next year's, let's say, split between, of course, R&D and SI&A. But I want to emphasize that in all scenarios, you need to know that you will have enough SI&A to be able to promote our business and we will maintain one of the highest absolute numbers of R&D spend in the industry, right? So if you see the numbers that every company is spending, and you see what -- you should expect, but what will remain for Pfizer will be on the top, let's say, on the top quartile, right? So I don't think we will have an issue with money. It's just that it is a very different -- it is a very different story to be able to support a \$70 billion revenue then -- \$60 billion revenue, which is more or less our current guidance, right? So that's why you're adjusting that we need to grow a smaller base now. So going back as to what will be our focus, the focus remains what we have. Oncology is a very, very big part of it.

We have very exciting pipeline ourselves, and we are investing significantly with the Seagen acquisition. Vaccines, it's a significant part of our focus. Metabolic diseases and internal medicine, I&I also and antivirals, anti-infectives also which are the other 3 areas that we are active currently also are part of the focus that we are having right now.

And last but not least, are we going to use, let's say, ways to mitigate risk of R&D by having different financing and selling risks with different partners, probably yes, but nothing that -- it's nothing that our cost reduction is based on giving products to other people to run it on their own expenses.

It's just a way to mitigate risk and share it, split it with more players, and that will continue to [let's make agree] that happens right now.

Operator

Our next question from Chris Schott of JPMorgan.

Christopher Thomas Schott - JPMorgan Chase & Co, Research Division - Senior Analyst

Just had a follow-up question on just the PAXLOVID commercial model. So just when we think about this kind of transition now, can you maybe just elaborate on similarities and differences of what we're seeing with the transition with COMIRNATY versus what you're expecting with PAXLOVID. So I guess, maybe specifically, do you expect the start is going to require a co-pay? And does that affect demand at all? And then just any directional color at all? I know you're not disclosing pricing, but just how different could pricing look versus what we were seeing previously with those government contracts?

Albert Bourla - Pfizer Inc. - Chairman of the Board & CEO

Yes. Of course, we are working to make sure that the transition will be seamless, and we will not have any issues. And in the vaccines, in the first couple of weeks, we saw that things were not adequate. There were some retailers that don't have stocks. We want to make sure that this will not happen. Now, and this is one of the reasons why we start in November, although the free product will be available all the way until the end of the year. But we do that so that when they -- one comes, everyone is well stocked with PAXLOVID so that we can start recording our sales.

Now the other element, of course, it is the price. Vaccines, they are 0 co-pay because of [block], right. PAXLOVID is like every other medicine. So when it comes to Medicare and Medicaid, clearly will be free. There will be no charge. And as I said, we will record the price of the pandemic.

When it comes to commercial product, that's a question of negotiations. It's not us, but we are setting the co-pays. It is the benefit designers that will set a co-pay on this medicine. What we are doing, we are explaining to them with data the solid value that PAXLOVID brings to the health care

system. And of course, we are planning to make contracts over the -- we will minimize the burden to patients by giving appropriate rebates. But at the end of the day, it's going to be the payer's decision and the planned benefits managers decision.

Operator

We'll take Geoff Meacham of Bank of America.

Geoffrey Christopher Meacham - *BofA Securities, Research Division - MD*

A lot have been asked already, but I guess, maybe bigger picture, Albert, does the COVID trends today that you're seeing on demand and on volume does it change how you're thinking about the priority for COVID combinations and flu and others? I just wasn't sure if that was still a strategic priority down the road.

Albert Bourla - *Pfizer Inc. - Chairman of the Board & CEO*

Yes, thank you. No, it remains clearly strategic priority. Let's make sure that we understand something, right? The COVID product, after these new realities that we are rebasing expectations, will be 2 of the largest products, right? So both PAXLOVID and the vaccines. There's clearly mega blockbusters, will remain to be. The second thing it is that clearly, the combinations on vaccines, we are very much convinced that will unlock significant potential by improving the vaccination rates. Right now, the flu vaccination rates in this country are at 48%, approximately, of the Americans are getting a flu vaccine. And those that could be -- and those usually are people that believe in vaccines, right? They go to get vaccines. They are not people that believe that vaccines they don't protect or they are dangerous, right, at large.

So it's going to be a way more convenient if they will be offered with the same injection, not 2 or 3, the same injection and 0 co-pay to get free of charge, not 1, but 3 vaccines or 2. I think that will increase the vaccination rates of COVID and will bring them closer to flu. Of course, that remains to be seen, but this is our belief right now. That's why we continue very aggressively developing combination for our respiratory franchise vaccines.

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

We'll take our last question.

Albert Bourla - *Pfizer Inc. - Chairman of the Board & CEO*

This is the last question. All right. Let's go to the last question.

Operator

We'll take our last question from Louise Chen of Cantor.

Louise Alesandra Chen - *Cantor Fitzgerald & Co., Research Division - MD & Senior Research Analyst*

So I wanted to ask you how much risk there is to the guidance that you've given for your COVID franchise for the remainder of the year? And if you could remind us when your international year ends?

Albert Bourla - Pfizer Inc. - Chairman of the Board & CEO

Well, I think that the same risk that exists in every guidance that you give, that's why which usually give a range so that we will be within it. But the guidance has 3 components. One, it is the base business. We feel very good about the base business. I don't think there is risk there, but of course, remains to be seen. Then the PAXLOVID. It is quite well calculated because we do not expect to record any additional sales of magnitude of additional sales in the current guidance in the months to come until the end of the year, and that for vaccination rates and for vaccines, as I said, there is a component which is based on outside the U.S., and this is based on delivery that are scheduled to occur. And there is a component of how many vaccines would be utilized in the U.S. until the end of December. And for that, we are using -- there is some risk there, up and down, but we are using, let's say, a reasonable assumption to calculate that, as I said.

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

And I think as it relates to the international calendar, we -- internationally, at the end of November. And as Albert articulated, I think we have a good plan for -- and outlook for the balance of the year. I think we've tried to take a very appropriate yet conservative approach to our guidance levels. So with that...

Albert Bourla - Pfizer Inc. - Chairman of the Board & CEO

Yes. But that's very important, what David said, right? So when we make all these calculations, we calculate that deliveries that will happen internationally in December will not be in this year's guidance, right?

So I think before we close the call, I felt that, that was a very useful discussion, and I feel that we clarified a lot. I think you would agree with me that a lot of the uncertainties that were surrounding the COVID business now have been either resolved or about to be resolved pretty soon. And the final elements will become clear and everybody could predict the business with the reasonable safety for '24 and the years to come.

But before we close this call, I want to extend the warm welcome to Francesca DeMartino, who joined Pfizer as our Head of Investor Relations exactly 2 weeks ago today. Talk about hitting the ground running, right? So in the middle of those news, she worked to prepare and organize us all. Francesca has nearly 25 years of experience in Investor Relations, communications and corporate finance in the health care industry. And every bit of that experience and insight has been on display in helping to prepare us for this important announcement. So it is clear that she is a great fit for our team.

Let me close by saying that all of us at Pfizer are proud that our scientific breakthroughs played a significant role in getting the global health crisis under control. This agreement represents the next logical step in our ongoing efforts to help ensure every eligible patient continues to have access to our potential life-saving COVID-19 treatment, and it will help ensure that Pfizer can continue delivering breakthroughs that change patients' lives. And now we will bring our call to a close.

Thank you very much for joining us. Have a great rest of the day.

Operator

This does conclude today's program. You may now disconnect your lines, and everyone, have a great day.

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