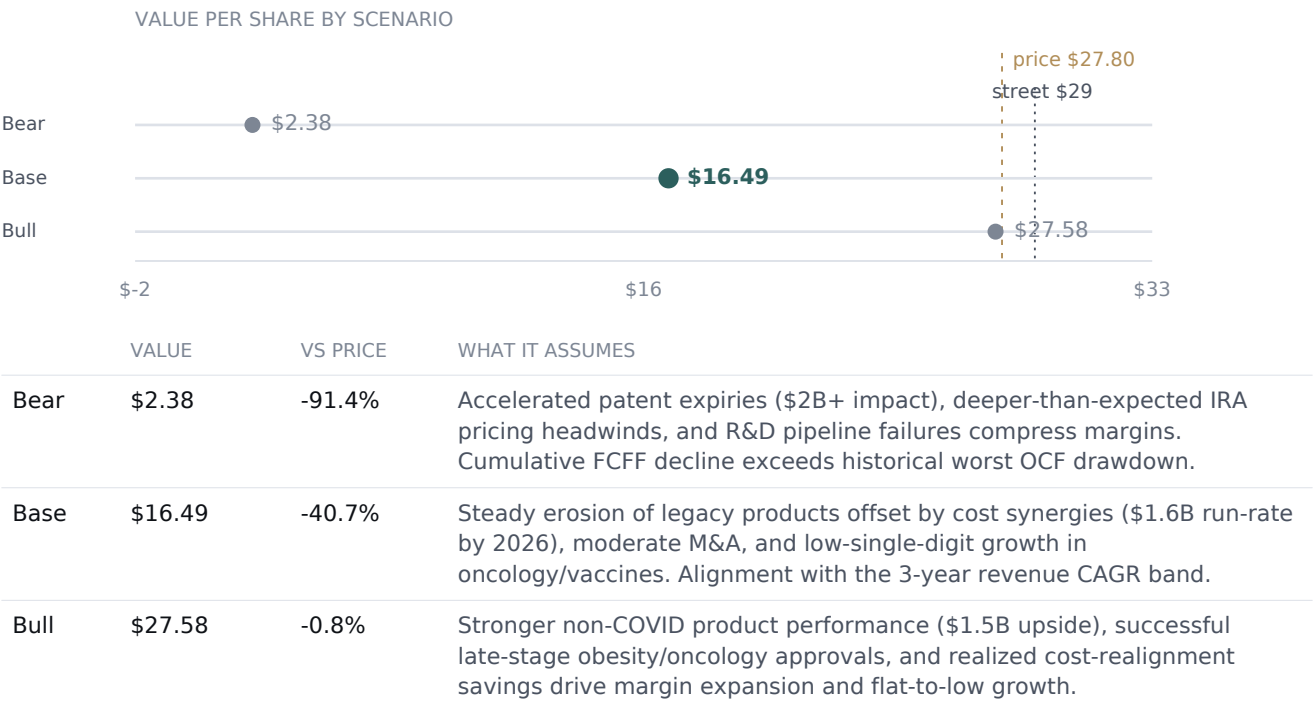


EQUITY RESEARCH / PFE

Pfizer Inc

SHORT CANDIDATE · historical study through 2026-10-02 · horizon 540 days · DCF + P/E

PRICE	BASE CASE	UPSIDE	PROB-WEIGHTED	MARKET CAP	TRAILING P/E
\$27.80	\$16.49	-40.7%	\$14.47	\$158.45B	36.6x



STREET CHECK

Street target **\$29** (+4.0% vs price) · 10 buy / 16 hold / 2 sell · forward P/E 9.7x · EPS estimates \$2.98 this year, \$2.90 next

Our base case is **0.57x** the Street target: clearly away from the Street.

Consensus is shown for calibration only. The model never receives it.

Thesis

Pfizer is trading at \$27.80, significantly above the base-case DCF value of \$16.49, reflecting a 36.58x trailing P/E that masks underlying structural headwinds. The elevated multiple is an accounting artifact driven by \$4.3 billion in Q2 2026 intangible impairments and ongoing restructuring, which suppresses TTM GAAP EPS to \$0.76. Despite generating \$13,117.2 million in trailing twelve-month FCFF, the company faces steep revenue erosion from \$1.5 billion in 2026 patent expiries, approximately \$1 billion in IRA Medicare Part D redesign impacts, and intense pricing pressure from MCOs and PBMs. The market is over-indexing on recent cost-cutting and pipeline optimism, overlooking the magnitude of the pending patent cliff and margin compression.

What the market may be missing

The market pricing at \$27.80 fails to discount the structural revenue decline and regulatory pricing headwinds, relying on a non-representative trailing P/E of 36.58x. Normalizing for impairments and restructuring reveals an underlying adjusted EPS guidance of \$2.80 to \$3.00, which implies a forward multiple closer to 9.5x to 10x. This fair-value estimate sits well below the current share price, indicating the stock is priced for seamless execution despite high execution and clinical risks.

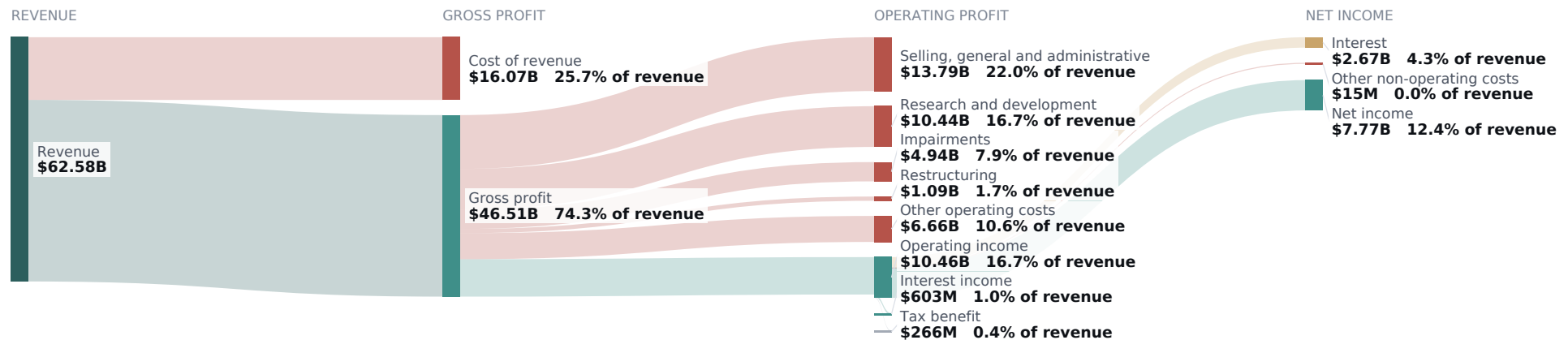
Why the opportunity exists

A narrative overshoot. The market is pricing in a narrative of resilience and successful transition to a new growth engine, reflected in the elevated 36.58x trailing P/E. This multiple ignores the accounting distortion from \$4.3 billion in impairments and underestimates the structural revenue erosion from patent expiries and IRA pricing reforms, leading to a price that does not align with the underlying cash flow generation. Evidence: Trailing P/E of 36.58x is an accounting artifact driven by \$4.3 billion in Q2 2026 intangible impairments and ongoing restructuring, which suppresses TTM GAAP EPS to \$0.76. Normalized forward P/E is approximately 9.5x-10x.

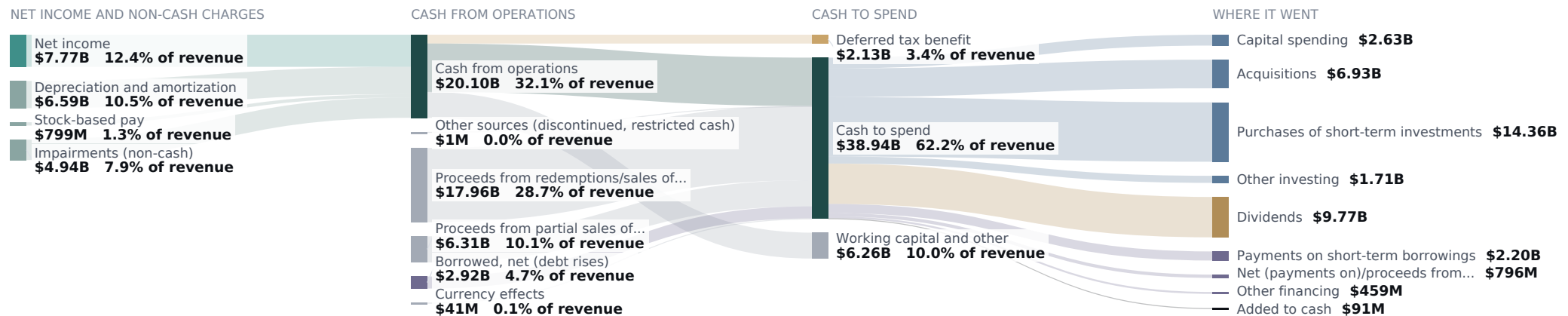
Follow the money: fiscal 2025

Of every \$100 of revenue, \$26 went to cost of revenue, \$59 to operating costs and \$4.3 to interest and tax, and \$12 became net income. Operations turned that into \$19 of cash; \$4.2 went to capital spending and \$16 back to shareholders.

1 WHERE EVERY DOLLAR OF REVENUE WENT



2 HOW PROFIT BECAME CASH, AND WHERE THE CASH WENT



From the 10-K for the fiscal year ended 2025-12-31, XBRL accession 0000078003-26-000026. Every band ties to a reported figure; where the tagged lines do not add up, the difference appears as an explicit other or working-capital band. Lines outside the standard set are placed by the filing's own calculation links, under the company's labels; borrowing and investment flows are netted by instrument.

The business

Global research-based biopharmaceutical company manufacturing and selling patented medicines and vaccines across oncology, internal medicine, vaccines, and inflammation/immunology, primarily through a single reportable Biopharma segment, navigating significant patent expiry and pricing headwinds while investing heavily in R&D and business development for post-2028 growth.

What it sells

Biopharmaceutical products including patented and off-patent branded/generic sterile injectables, biosimilars, vaccines, and specialty medicines. Therapeutic focus areas include internal medicine (cardiometabolic, weight management, migraine), vaccines, inflammation & immunology, rare diseases, anti-infectives, and oncology. Key marketed products include Eliquis, Prevnar family, Comirnaty, Abrysvo, Xeljanz, Enbrel, Ibrance, Xtandi, Padcev, Adcetris, Tivdak, Paxlovid, Nurtec, Zavzpret, Cibingo, Litfulo, Orgovyx, and various oncology and biosimilar injectables. Biopharmaceutical products and vaccines including Eliquis, Prevnar family, Vyndaqel family, Comirnaty, Ibrance, Paxlovid, Xtandi, Padcev, Nurtec ODT/Vydura, Xeljanz, Abrysvo, Lorbrena, Adcetris, and oncology biosimilars. Also provides contract manufacturing, supply, and active pharmaceutical ingredient services through Pfizer CentreOne. Research-based global biopharmaceuticals including chronic therapies (Eliquis, Ibrance, Vyndaqel family), oncology drugs (Padcev, Lorbrena, Talzena, Braftovi), vaccines (Comirnaty, Prevnar, Abrysvo), hemophilia treatments (Hymoviz), and manufacturing/contract services via Pfizer CentreOne.

Customers and channels

Prescription biopharmaceutical products are sold principally to wholesalers, with direct sales to retailers, hospitals, clinics, government agencies, and pharmacies. Vaccines in the U.S. are primarily sold directly to the federal government (including the CDC), wholesalers, individual provider offices, retail pharmacies, and integrated delivery systems. Outside the U.S., vaccines are primarily sold to government and non-government institutions. Commercial access is heavily influenced by managed care organizations (MCOs), PBMs, and formulary placement, which typically require rebates and discounts. The company uses an omnichannel commercial approach, markets directly to consumers, and participates in the TrumpRx.gov platform for discounted patient purchases. Revenue generated through U.S. and international commercial markets, government agencies (historically for vaccines/antivirals, transitioning to traditional commercial channels), healthcare providers, payors, PBMs, MCOs, and wholesalers. Commercial operations managed via a global structure with Biopharma as the sole reportable segment. Global commercial operations serving U.S. and international markets. Revenues subject to deductions for rebates, chargebacks, and sales allowances. Sales to governments, private payors, and third-party manufacturers. Distribution involves wholesaler models and direct sales.

Unit economics and costs

R&D is managed collectively on a total-company basis and not disaggregated by development phase or therapeutic area. Significant cost-sharing and profit-splitting are standard in commercialization collaborations (e.g., Comirnaty, Eliquis, Xtandi, Padcev typically share costs and profits equally in designated regions). Manufacturing and supply chain rely on multiple global raw material suppliers. Pricing is materially reduced by mandatory rebates and discounts to MCOs, PBMs, and government programs (Medicare Part B/D, 340B). The IRA Medicare Part D Redesign negatively impacted 2025 revenues by approximately \$1 billion. The company is reinvesting approximately \$500 million of R&D savings from a 2025 cost-alignments program back into R&D. Cost of sales decreased 10% to \$16,067 million (25.7% of revenue), driven by favorable sales mix (\$1.4B), lower acquired inventory amortization (\$633M), and non-recurrence of Paxlovid adjustments. SI&A declined 6% to \$13,794 million from \$930 million lower marketing spend and \$395 million lower corporate enabling functions. R&D decreased 4% to \$10,437 million from pipeline optimization. AIPRD surged to \$1,613 million from 3SBio and YaoPharma in-licenses. Restructuring costs fell 36% to \$1,550 million. Long-term gross margin improvement remains a key focus. Cost of sales was \$4,092M in Q2 (27.2% of revenue, up from 25.8% YoY), driven by unfavorable sales mix and higher amortization of fair value step-up from acquired inventory (Oxbryta). Adjusted Cost of Sales was 24.3% of revenue. SI&A decreased 1% operationally to \$3,411M. R&D increased 13% operationally to \$2,809M, driven by oncology and obesity candidates. Adjusted SI&A was \$3,344M and Adjusted R&D was \$2,730M.

Segments

- **Biopharma** - Innovative science-based biopharmaceutical business engaged in the discovery, development, manufacture, marketing, sale and distribution of biopharmaceutical products worldwide. Commercial structure includes U.S. Commercial, International Commercial, and Global Hospital and Biosimilars divisions. Global commercial operations for drugs and vaccines. Only reportable segment.
- **PC1** - Contract development and manufacturing organization and a leading supplier of specialty active pharmaceutical ingredients.
- **Pfizer Ignite** - Provides strategic guidance and end-to-end R&D services to select innovative biotech companies. Discontinued in 2025 and currently being wound down.
- **Pfizer CentreOne (PC1)** - Manufacturing, supply agreements, and active pharmaceutical ingredient sales.

Revenue drivers

- Commercial execution across U.S., International, and Global Hospital & Biosimilars divisions
- Advancement of innovation pipeline and regulatory approvals
- Business development activities including acquisitions and in-licensing
- Global demand for vaccines and infectious disease treatments
- Adoption of oncology and specialty care therapies
- Management of patent exclusivity lifecycle
- Government and commercial formulary access and reimbursement dynamics
- Operational decline of 2% primarily driven by lower Paxlovid (-59% oper) and Comirnaty (-20% oper) sales

Competitive position

Operates in intensely competitive and highly regulated markets. Competes primarily on efficacy, safety, tolerability, ease of use, and cost. Maintains multi-billion dollar R&D investments and pursues M&A to build a differentiated pipeline. Faces direct competition from branded drugs, generics, biosimilars, and next-generation vaccines. Actively works to demonstrate clinical and economic value to payors and health authorities to secure formulary placement. Maintains leadership in multiple high-value chronic disease therapies and vaccines, leveraging strong R&D and strategic M&A to replace pipeline attrition. Actively defending intellectual property while navigating accelerating biosimilar/generic entry post-2026. Prioritizing digital enablement, AI, and manufacturing optimization to sustain cost structure and operational efficiency against global pricing pressures. Strong pipeline with late-stage assets in oncology, obesity (berobenatide advancing to Phase 3), and vaccines. Patent expiries will accelerate revenue reduction 2026-2030. Expanding commercial footprint with new indications. Metsera acquisition and Innovent collaboration bolster early-stage pipeline. Focus on technology simplification and manufacturing optimization to offset patent cliffs.

Industry direction

Shift toward value-based pricing, formulary management, and cost containment driven by MCO/PBM consolidation and government policy. Full implementation of IRA provisions including donut hole elimination, out-of-pocket caps, manufacturer discount programs, and MDPNP/Maximum Fair Price controls. Increased regulatory and legislative scrutiny on PBM practices, rebate transparency, and pricing. Growing integration of AI across R&D, manufacturing, and commercial operations. Accelerating biosimilar and generic competition, particularly in China and the U.S. Pharmaceutical industry facing sustained pricing and access constraints from government pricing agreements, IRA provisions, PBMs, and formulary tiering. Global trend toward price comparability across developed markets, increased biosimilar competition, and regulatory focus on safety/nitrosamine testing. Shift from government contracts to commercial markets for pandemic products. Emphasis on value-based care, AI-driven R&D, and supply chain localization. Government payor pressures, IRA Medicare Drug Price Negotiation Program impacting Eliquis pricing. International reference pricing and 340B program changes. Tariffs/IEEPA landscape evolving. OECD Pillar 2 global minimum tax impacting effective tax rates. Shift toward targeted therapies, ADCs, and metabolic/obesity treatments.

Recent developments

- Q2 2026 revenue \$15.0B (+1% operational); GAAP net loss \$248M driven by \$4.3B intangible impairments and legal charges.
- Announced \$1.0B additional net cost savings from Realigning Our Cost Base Program (\$2.0B one-time costs, realization 2027-2029).
- Announced next phase of Manufacturing Optimization Program: \$1.5B additional savings, \$4.0B one-time costs, realization 2027-2029.
- Innovent collaboration closed July 10, 2026 (\$650M upfront, up to \$9.85B milestones, double-digit royalties).
- Oxbryta voluntarily withdrawn in US (July 31, 2026) due to FDA assessment.

- SigVie-002 Phase 3 for sigvotatug vedotin did not meet primary OS endpoint.
- CFO transition: Dave Denton stepping down, Cecile Guegan named Interim CFO.
- Raised 2026 revenue guidance midpoint by \$500M to \$61.5B; reaffirmed Adjusted EPS \$2.80-\$3.00.

Management outlook

Raised full-year 2026 revenue guidance midpoint by \$500M to \$61.5B (\$60.5-\$62.5B range), reflecting stronger non-COVID product performance (~\$1.5B upside) partially offset by lower COVID product expectations (~\$1.0B downside). Reaffirmed full-year Adjusted diluted EPS guidance of \$2.80-\$3.00, absorbing an \$0.10 unfavorable impact from the Innovent IPR&D charge. Management emphasizes long-term gross margin improvement, ongoing de-leveraging of the balance sheet, and reinvestment in R&D (~\$5.3B YTD internal spend), while targeting \$10.7B in cumulative net cost savings from restructuring programs through 2029. 2026 priorities focus on maximizing transaction value, delivering R&D milestones, investing for post-2028 growth, and scaling AI. Expects Comirnaty 2026 phasing and market share similar to 2025. Does not anticipate material incremental IRA Part D redesign impact in 2026 versus 2025 baseline. Capital allocation framework prioritizes dividend maintenance/growth, business reinvestment, and balance sheet deleveraging to enable future share repurchases. 2026 priorities focus on maximizing transaction value, delivering critical R&D milestones, investing to maximize post-2028 growth, and scaling AI across the business. Management anticipates a significant reduction in revenue from patent-based or regulatory exclusivity expiries from 2026 through 2030, with the rate of reduction expected to accelerate. No material incremental impact from the IRA Medicare Part D Redesign is expected in 2026 versus the 2025 baseline.

Accounting flags

- \$4.3B intangible asset impairments recorded in Q2 2026.
- OBBBA enacted July 2025, reducing GILTI/NCTI rate to 12.6% for 2026.
- OECD Pillar 2 global minimum tax implementation pending across jurisdictions.
- Significant use of non-GAAP Adjusted Income/EPS excluding impairments, restructuring, IPR&D, and acquisition items.
- FX reclassification of prior period amounts to conform to current segment presentation for PC1.
- High reliance on estimates for revenue deductions (rebates, chargebacks), with Medicare/Medicaid accruals most susceptible to material adjustment due to settlement lags up to one year.

Key figures

KEY FIGURES	TTM TO 2026-06-28	FY2025	
Revenue	\$63.70B	\$62.58B	-1.7% y/y
Net income	\$4.33B	\$7.77B	
Diluted EPS	\$0.76	\$1.36	36.6x trailing P/E
Operating cash flow	\$13.40B	\$11.70B	-8.2% y/y
Capital spending	\$2.42B	\$2.63B	3.8% of revenue
Unlevered FCFF	\$13.12B		8.3% yield
Cash and short-term investments	\$8.26B		
Net debt	\$54.94B		
Market capitalisation	\$158.45B		

Figures from the filings' XBRL; definitions in the method section. Flows are trailing twelve months to 2026-06-28 (fiscal year 2025 plus year to date less the same period a year earlier, from the 10-Q filed 2026-08-04). Balance-sheet items are as of 2026-06-28 from the quarterly report. Interest tax shield uses the 21.0% statutory rate from the filing's rate reconciliation. Current debt of \$2,699.0M (Short-term borrowings, including current portion of long-term debt: 2026 - \$2,605; 2025 - \$2,997) falls due within twelve months of 2026-06-28; the price date is 96 days later, so check in the filing whether any of it matured or was refinanced before 2026-10-02. WACC

The counter-case

The bull-case DCF value of \$27.58 is nearly at the current price, assuming successful late-stage clinical readouts, \$1.5 billion in non-COVID product upside, and full realization of cost-realignment savings. If Pfizer scales AI-driven R&D efficiency and maintains its dividend while deleveraging, the current valuation may be justified as the market anticipates a successful transition post-2028. The company successfully offsets the patent cliff with strong late-stage approvals, particularly for the obesity candidate berobenatide and oncology assets like Padcev and Lorbrena, which continue to post double-digit operational growth. Simultaneously, the realization of \$1.6 billion in annual cost synergies from the Seagen and Metsera acquisitions, combined with \$5.7 billion in net cost savings from realignment programs, drives margin expansion and sustains low-single-digit FCFF growth, justifying the current valuation.

Valuation

Pfizer generates positive, sustained unlevered free cash flow and is navigating a structural revenue decline from patent expiries, making FCFF the primary valuation anchor. Trailing GAAP EPS is heavily distorted by non-cash impairments and restructuring charges, warranting an earnings multiple on a normalized run-rate basis to reflect underlying operational profitability.

SCENARIO	ASSUMPTIONS	VALUE	VS PRICE
Bear	FCFF growth -15%, -25%, -30%, -20%, -15%; WACC 8.2%; terminal growth 1.5%	\$2.38	-91.4%
Base	FCFF growth -3%, -4%, -5%, -6%, -7%; WACC 8.2%; terminal growth 1.5%	\$16.49	-40.7%
Bull	FCFF growth +2%, +3%, +2%, +1%, +0%; WACC 8.2%; terminal growth 2.0%	\$27.58	-0.8%

- Discount rate: the model used 8.2% against an anchor of 8.2% (risk-free 5.24%, beta 0.80, equity risk premium 5.0%, cost of equity 9.2%, after-tax cost of debt 4.1%, debt 28% of capital).
- The price implies constant five-year FCFF growth of +3.3% at the base-case WACC and terminal growth.
- Anchors from the company's own history: base-case growth band -12.0% to +8.5% a year; worst revenue decline -45% (2022-2023); own trailing P/E 9.37-77.81x (median 18.31x) over the last five fiscal year ends.
- Sensitivity to discount rate: 6.2% gives \$27, 7.2% gives \$21, 8.2% gives \$16, 9.2% gives \$13, 10.2% gives \$11.
- Sensitivity to terminal growth: 0.5% gives \$14, 1.0% gives \$15, 1.5% gives \$16, 2.0% gives \$18, 2.5% gives \$20.
- Per-share values use 5,699,673,589 shares as of 2026-07-29; the fiscal-year diluted average differs by +0.2%.
- Probability-weighted value \$14.47 (-47.9% vs price) at 30%/50%/20% weights.

Bear case assumes accelerated patent expiries exceeding \$2.5 billion impact, deeper IRA pricing headwinds, and pipeline failures, driving FCFF down 15%-30% annually. Base case reflects the guided \$1.5 billion patent expiry impact, moderate cost synergies (\$1.6 billion run-rate), and a 3%-7% annual FCFF decline as legacy products phase out but are partially offset by oncology and specialty growth. Bull case requires successful late-stage obesity/oncology approvals, \$1.5 billion in non-COVID upside, and realized cost-realignment savings to drive low single-digit FCFF growth.

What breaks the case

SHOCK TO THE BASE CASE	VALUE	VS PRICE
Base case as planned	\$16.49	-40.7%
WACC 100bp higher	\$13.25	-52.3%
Pre-tax cost of debt 200bp higher	\$14.92	-46.3%
Every year's FCFF growth 5 points lower	\$11.13	-60.0%
Every year's FCFF growth 5 points higher	\$23.00	-17.3%
Starting FCFF 10% lower	\$13.88	-50.1%
Starting FCFF 10% higher	\$19.10	-31.3%

The base case equals the price at a 6.1% WACC or if every annual FCFF growth rate were +8.2% points different. These are thresholds, not forecasts.

No listed peer was judged comparable. The fund's peer tree is marked unavailable for this quarter, preventing direct multi-asset comparables analysis. Consequently, the base multiple of 15x is anchored against Pfizer's own five-year trailing P/E range (9.37x-77.81x, median 18.31x) and justified by its mature biopharma profile, structural revenue decline, and normalized cash flow generation.

What would change the view

Key debates

- Patent cliff magnitude vs. pipeline offset: The primary driver of long-term cash flow sustainability; missed targets or accelerated exclusivity directly erode FCFF. (Management guidance cites \$1.5B patent expiry impact in 2026, with revenue falling to \$61.5B from \$62.6B.)
- IRA Medicare Part D Redesign pricing pressure: Government payor reforms permanently alter net realized prices, compressing margins below historical averages. (Fact sheet notes the redesign negatively impacted 2025 revenues by approximately \$1 billion.)
- R&D productivity and M&A integration: Pfizer relies heavily on acquisitions (Seagen, Metsera) and pipeline advances to replace attrition; execution risk determines base vs. bear outcome. (Innovent collaboration, Metsera acquisition, and targeting \$1.6B annual cost synergies by end of 2026.)

Sensitivities the company discloses

- Expected annual rate of return on pension plan assets: 50 basis point decline gives \$87 million increase in 2026 net periodic benefit costs
- Discount rate for plan obligations: 10 basis point decline gives \$5 million increase in 2026 net periodic benefit costs and \$201 million increase to 2025 benefit obligations

Catalysts

- Q4 2026 full-year results and 2027 guidance release
- Phase 3 regulatory decisions for berobenatide and other late-stage pipeline assets
- Metsera and Innovent milestone payments and commercial uptake tracking
- IRA Medicare Part D redesign impact assessments and formulary tier changes
- Next quarterly report for GAAP impairment and OCF tracking

Invalidation

- TTM FCFF growth turns positive and sustains across multiple quarters
- Patent cliff revenue reduction is significantly less than the \$1.5 billion 2026 guidance
- Company announces a large-scale share repurchase program exceeding previous guidance
- Seagen and Metsera acquisitions deliver synergies above \$1.6 billion annual run-rate by end 2026 ahead of schedule
- IRA redesign impact is materially less than the \$1 billion 2025 baseline

Risks

- Significant revenue reduction from patent expiries 2026-2030
- IRA Medicare Part D redesign and government price controls compressing margins
- R&D pipeline failures or delays in late-stage assets
- Refinancing risk on \$2,699.0 million short-term debt in a higher-rate environment
- Ongoing litigation and regulatory scrutiny
- FX reclassification and pension cost sensitivities

Short side

Shorting is compelling given the valuation gap, but borrow availability, squeeze risk, timing, and the unbounded loss must be managed carefully. Borrow availability is generally stable for a mega-cap, yet squeeze risk rises sharply around binary clinical catalysts or guidance revisions. Timing the entry is difficult due to potential short-term narrative bounces, and the unbounded loss potential necessitates strict position sizing and stop-loss discipline.

Open questions

Will the \$1.5 billion patent expiry impact and \$1 billion IRA redesign impact materialize faster or deeper than guided in 2026? (forecast uncertainty)

Monitor quarterly revenue guidance revisions and non-COVID product performance trackers. Watch: Missed revenue guidance or downward revisions for 2026/2027.

How will the \$2,699.0 million short-term borrowings maturing within 12 months of Q2 2026 be refinanced given current rate environments? (missing fact)

Review subsequent debt issuance or maturity announcements in the next quarterly filing. Watch: New debt issuance or refinancing disclosures.

Limitations

The DCF base-case assumes a steady 3%-7% annual FCFF decline, but this may understate the pace and severity of the patent cliff or overestimate margin expansion from cost synergies. The normalized earnings multiple approach failed because normalized EPS is negative (-\$0.29), rendering the earnings valuation method invalid for this report. The bull case (\$27.58) relies heavily on positive FCFF growth, which contrasts sharply with the company's recent 3-year revenue CAGR of -12% and OCF growth of -8.2%. This memo is an initial research product from a frozen historical filing and price; it is not investment qualification.

Software flags: core line items missing:operating income; exposure quote unverified:customer concentration; exposure quote unverified:refinancing; exposure quote unverified:regulation; normalized eps not positive.

Sources

10-K for the fiscal year ended 2025-12-31, filed 2026-02-26 (accession 0000078003-26-000026).

10-Q for the quarter ended 2026-06-28, filed 2026-08-04 (accession 0000078003-26-000095).

8-K for the earnings release dated 2026-08-04, filed 2026-08-04 (accession 0000078003-26-000094).

- Price: historical close of \$27.80 on 2026-10-02.
- 8 cited claims and 15 recorded calculations; every figure in the key-figures table is bound to a tagged XBRL fact, and every calculation reproduces independently.
- Street consensus from the market-data vendor on the same date, shown for calibration only.

Model: Qwen3.6-35B-A3B-NVFP4 · run discovery-20260911 · job 489 · memo SHA-256 1fa5e15749f35802... · full memo and audit attached as JSON.

This note was written by a model from a single annual filing and a closing price. It is a starting point for human research, not a recommendation; nothing here has been investment-qualified.