

FINAL TRANSCRIPT

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PRESENTATION

Operator

Amal Naj, Head of Investors' Development, you may begin.

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Amal Naj - Pfizer Inc. - VP, Investor Development and Strategy

Thank you. Good afternoon and welcome to our second-quarter 2007 analyst call. I am here with Jeff Kindler, Chairman and CEO; and David Shedlarz, Vice Chairman; Ian Read, Head of our Worldwide Pharmaceuticals; John LaMattina, Head of Research and Development; Alan Levin, Chief Financial Officer; Allen Waxman, General Counsel; and others.

Before they review our second-quarter results and take your questions, I would like to read the cautionary statement that the discussions during this conference call will include forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements. The factors that could cause actual results to differ are discussed in our 2006 annual report on Form 10-K and in our reports on Form 10-Q and Form 8-K.

Also, the discussions during this conference call will include certain financial measures that were not prepared in accordance with generally accepted accounting principles. Reconciliations of those non-GAAP financial measures to the most directly comparable GAAP measures can be found in our current report on Form 8-K dated July 18, 2007. These reports are available on our website at www.pfizer.com and the "For Investors - SEC Filings by Pfizer" section.

Thank you and now I would like to turn it over to Jeff Kindler, our CEO and Chairman.

Jeff Kindler - Pfizer Inc. - CEO, Chairman

Thank you, Amal. Good afternoon, everyone. Before we get your questions, I would like to make a few comments regarding our performance this quarter and for the year so far, the progress we are making on the immediate priorities that we announced in January and some of the ways we're looking ahead to the future. Ian Read will then follow up with additional detail on the recent performance of Lipitor and prospects for the product's full-year performance, and then we will get to your questions.

On our performance, let me be direct. It was a tough quarter. There were three major factors. First, since last year's comparable period, exclusivity ended for two major products, Zolof and Norvasc. Second, we made payments to Bristol-Myers Squibb this quarter in connection with our collaboration to develop and commercialize apixaban, an important opportunity for us. Third, Lipitor's performance in the US fell short of our expectations.

Regarding Lipitor, we are in a tough battle, as you know. The statin market has proven to be even more intensely competitive than we believed it would be. Ian will shortly explain the different factors involved and describe how we will continue to execute on our programs that differentiate Lipitor from the competition.

Regarding our new products, which will, of course, be increasingly important contributors to our future, three significant new products -- Chantix, Sutent and Lyrica -- performed extremely well, and we continued to launch these products around the world. Of course, another new product, Exubera, continues to be disappointing, despite the positive feedback we received from patients that are using it. We continue to execute on our 2007 action plan.

Combining today's results with our strong first-quarter performance, our revenues and earnings are on track for the year, and we are reaffirming our 2007 and 2008 financial guidance for revenues and diluted EPS, notwithstanding the complex, fast-changing and competitive marketplace in which we're operating. Today's results simply underscore what we said when we met with you six months ago. At that time, we were very clear about both the scope and the substance of our challenges and opportunities and the need to address those challenges and opportunities realistically and with a sense of urgency. We knew that the first thing we needed to do was to make some basic changes in the way that we operate, in order to put ourselves in the best position to succeed.

In that connection, we established five priorities that needed immediate attention -- an intense focus on maximizing our near and long-term revenues; the establishment of a lower and more flexible cost base; the creation of a smaller, more focused and

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more accountable operating structure; changing our culture to one that has a complete commitment to engaging collaboratively with the people outside our walls that are critical to our success; and, finally, making Pfizer a great place to work.

We remain committed to delivering on these changes, because they will provide the foundation that we must have for Pfizer's success as we develop our plans for the future. We had no illusions in January and we have no illusions today that these changes could occur overnight. But I believe that in the six months since we adopted these priorities, we are making strong progress. We've detailed some of that in the press release today, and we will continue to provide you with status reports, but let me just mention two examples this afternoon.

First, research and development. Obviously, our future success will be created in our laboratories and in the laboratories outside our company, with whom we collaborate through alliances, licenses, acquisitions or other arrangements. For that reason, while we are reducing costs significantly in other parts of the organization, we held the R&D budget steady. But we shifted significant spending from bricks and mortar and administrative costs to our central mission, science and the discovery and development of drugs. We committed to simplify Pfizer R&D, both in terms of our footprint and our organizational structures, so as to better unleash the creativity of our scientists.

I have to tell you I am very encouraged by what has been accomplished in R&D in a mere six months. We have a number of new leaders from both inside and outside the Company in place; and, remarkably, two-thirds of the portfolio projects that needed to be transferred across research sites are already being actively pursued in their new location. The remainder will be transferred by the end of this year.

Even more importantly, the vast majority of our scientists working in projects that are moving to another site who have been offered the opportunity to transfer have, in fact, agreed to relocate. I know of no better sign of confidence in Pfizer R&D and its future than the fact that our scientists are voting with their feet. I want to take this opportunity publicly to thank the PGRD management team around the world for their outstanding leadership in this challenging time.

A second example of how the changes that we announced in January are taking hold -- the new US business unit structure and associated field forces went fully operational only four months ago. All five business units have strong leaders and energized teams that are already having an impact. I could give you lots of examples of this, but let me just pick one, because it relates to something important that just happened, the new Lyrica indication for fibromyalgia that we just received. I believe this is representative of things that are happening across our company.

Andreas Fibig is the new leader of our Powers business unit. As you know, we are well on our way to building a leadership team at Pfizer that represents a good balance between those with deep industry and Pfizer experience and those who will bring the new perspectives that we need.

Andreas is a great example of both. A 20-year veteran of our industry, he has led businesses around the world for five different pharmaceutical companies. Like his counterparts in the other four US business units, Andreas is running his business in the way that makes the most sense for the products that he has. His entire team has a clear line of sight to the results for which they are accountable, and they are moving quickly and decisively.

Thanks to the great work of our development and regulatory colleagues, we obtained approval of the fibro indication as much as two to three times faster than might have been typical in the past. The Powers business unit is now executing on a fast-to-market strategy that will unleash a full array of sales and marketing resources, including DTC, within three months of FDA approval. In the past, it was not uncommon at this point in a product's rollout for us to still be in just the planning stage of promotional activities that would still be many months away.

These two examples validate my view that while we're on a continuing journey to transform the Company, we can and will quickly make the changes that we need to make to establish the necessary foundation for our future success. Of course, it's also critical that we develop and implement the plans that will assure that over the medium to long term, Pfizer adapts itself to the

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changing needs and demands of our customers, so that we are and remain a leader in providing innovative new therapies for unmet medical needs that patients and payers will highly value and, as a result, drive revenues.

In that regard, our leadership team has been engaged in an intense and comprehensive review of a range of opportunities that will shape the company over the next 5 to 10 years. We are re-examining our business mix, so that we develop compounds and pursue opportunities aggressively in the right disease areas, technologies and geographies, all with a clear focus on our best opportunities for growth.

Our areas of focus include, first, in R&D, improving productivity by focusing on and accelerating key opportunities. In particular, we're committing considerable resources to promising areas like oncology, diabetes and neurological disorders, among others.

Second, in business development, we have undertaken a thorough prioritization of every therapeutic area, and are actively engaged in a disciplined but opportunistic plan for supplementing our internally generated programs, including through new accretive deal structures such as you saw with apixaban.

Third, in therapeutic platforms, we know that the majority of our drugs will continue to consist of small molecules. That has always been and will always be a core strength of this company. But we believe large molecules offer significant promising R&D opportunities that we need to pursue, and we are intent on doing so.

Fourth, in terms of the entire life cycle of our products, we're looking at every aspect of our business model, optimizing new indications, accelerating high-quality, low-cost manufacturing, deriving additional value from mature products and innovating our go-to-market strategies.

Fifth, stepping up our focus and investments in emerging markets in Europe and Asia.

Finally, seeking complementary opportunities in products and technologies that could add value to our core pharmaceutical offerings. We believe that each of these areas of focus and others offer significant opportunities for Pfizer to play a leading role in a world in which the aging population, economic changes and continuous advances in science and medicine will all drive both people's increasing need for high-quality, cost-effective healthcare and also the opportunity to help meet that need by providing new, innovative and highly valuable therapies. I believe we're making solid progress toward that goal.

Now I would like to turn it over to Ian, who will return to the subject immediately at hand, this quarter's performance, particularly as it relates to Lipitor.

Ian Read - Pfizer Inc. - President, Worldwide Pharmaceutical Operations

Good afternoon. We are now at the half-year point, and I would like to make some remarks on Lipitor's performance. When we set our forecast, it was subject to several variables, such as double-digit market growth continuing, level of switches, our share of new patient starts and the effectiveness of our marketing platform differentiating the unique benefits of Lipitor from the competition.

So where are we now? In the first half, Lipitor sales worldwide were \$6.1 billion, down 2%. Internationally, sales grew 7% in the first half and 5% in the second quarter. This reflects the impact of our marketing and field-based strategies operating successfully, late in the cycle of generic simvastatin, which has been available in many international markets for at least three to four years. Obviously, we're much earlier in the cycle in the US.

Looking at our six-month numbers, which are the best indicator of how we are doing, Lipitor sales in the US were down 8%, which consisted of a 10-point script decline, partially offset by (inaudible) pricing impact net of rebates. In the second quarter, Lipitor's US performance was negatively impacted by two factors, which we had highlighted in the first quarter as positively

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impacting the brand. These two factors -- changes in the US wholesale inventory levels and the differences in reconciliation of internal/external data that are normally seen each quarter, to varying degrees -- accounted for approximately 50% of the revenue declines in the US second-quarter results, and are not expected to have a negative impact on US performance over the second half of the year. Other contributing factors to the quarter's performance include a decreased level of prescriptions as well as increased rebates associated with our more flexible contracting activities.

Putting all this together, at the six-month point, global Lipitor sales are down 2%. For the full year, we forecast global Lipitor revenues of flat to a 5% decline relative to the prior year. We have incorporated into this forecast a moderation in the level of decline of prescriptions in the US market relative to the second quarter, reflecting extensive promotional and contracting efforts. In addition, we have incorporated an increase in the level of contracting rebates, consistent with our current, more flexible contracting policy.

So let's look at the key metrics in the market. In terms of volume drivers, while the net switch volume loss to generics was greater than expected, peaking at around 24,000 per week after multi-source simvastatin generic availability, we are now seeing good recovery from that, headed back towards pre-multi-source generic levels of around 13,000. Switches to CRESTOR and VYTORIN are minimal, accounting for less than 15% of total net switches.

While I am pleased with the slope of the switch curve, I'm less satisfied with our new patient starts, which represent about 15% of the NRx market. We need to improve our performance here.

There is no doubt that we continue to face a difficult payer environment, with plan administrators under significant pressure to move to generic simvastatin, but I would not underestimate our determination and the progress we are making. We continue to have good Tier 2 access. In fact, about two-thirds of US commercial Medicare Part D, Medicaid and federally insured lives now have Tier 2 access to Lipitor.

This is not an accident. It is a consequence of the changes we have made in our customer-focused business unit. We are far more dynamic and granular in understanding where our customers are going and their needs.

Our recent agreement with ESI, where Lipitor has been added to its nationally preferred formulary with Tier 2 unrestricted access starting in June, is a good example of how our approach is working. We continue to use our knowledge to optimize our Tier 2 access, and we are meeting with each customer to maintain our strong formulary position and meet patients' needs.

We also continue to execute on the strategies laid out in January to drive Lipitor's value and differentiation. We have new indications strengthening our full package of Lipitor's potency; its unique combination of efficacy, outcomes and safety; an extensive TV and radio campaign; strong execution of our field force; and adherence programs to support patients to stay on the full course of therapy.

To close, we have market growth as expected. Switch is headed in the right direction. We're aggressively executing our marketing programs, and our field force is motivated, set to leverage our recent gains in formulary position to drive volume and new patient share. Thank you.

Jeff Kindler - Pfizer Inc. - CEO, Chairman

Thanks, Ian, and --

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QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS). Roopesh Patel, UBS.

Roopesh Patel - UBS - Analyst

I have a couple of questions. First, on inventory, can you help us quantify the extent of the inventory impact on the 6% revenue decline that we've seen in this quarter?

Then my sense is that, historically, Pfizer has had a very tight control over wholesaler inventory levels, and therefore we didn't really see the kind of inventory swings in the past that I presume has impacted reported sales during the past two quarters. I'm just wondering what, if anything, has changed.

Then separately, on cost of goods, I'm curious about the increase in the absolute dollar spending cost of goods on a year-over-year basis. It's up 12% despite a 6% drop in revenues, and this is after filling out the \$215 million charge related to the AtS program and the business transition activities, and I'm wondering if you could just elaborate on that as well.

Jeff Kindler - Pfizer Inc. - CEO, Chairman

Thank you, Roopesh. I'm going to ask David to address both inventory and cost of goods, and then Ian may elaborate as it pertains to particular products.

David Shedlarz - Pfizer Inc. - Vice Chairman

Inventories can be looked at along two fronts -- one in aggregate for the Company, and then on a product-specific basis, and they are two different stories at this point in time. So I think, overall, and in terms of the inventory position of the Company, it's pretty in balance with where it was in the prior years. Now inventory with the wholesale class of trade quarter to quarter changes in the wholesalers, given their underlying business management of their own inventories.

But inventory was not a major dislocating factor for the Company as a whole, in terms of its performance in the second quarter. I'll asked Ian to expand upon this in a moment. It was a factor across individual products, some benefiting and some seeing a negative impact, and in particular, Lipitor, where we saw in the first quarter a not insignificant benefit from increasing wholesaler inventories that reversed in the second quarter.

So let me just kind of summarize once again. Overall, not a major factor in terms of the revenue performance of the Company in the quarter. Product-specific storage -- yes, particularly as it relates to Lipitor.

In terms of cost of goods, cost of goods as a percent of sales in the first quarter was 14%. Cost of goods on an adjusted basis in the second quarter was 17%. So your question is a very valid and important one. In the second quarter, what we saw is the unfavorable impact of both products and geographic mix, and our dear friend, foreign exchange, while it favorably impacted revenues, unfavorably impacted expenses including cost of goods.

So, in particular, in terms of geographic mix, we saw about 55% of the revenues come from our international operations in the second quarter, primarily due to the tempering of the performance of Lipitor in the United States. That's abnormal. What we're likely to see in terms of the mix of revenues, both domestically and internationally for the full year, is about 50% for both. As you know, the US pricing flexibility is greater than the international market, so it tends to benefit the gross margin of the Company.

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Another critical factor are our productivity programs in the manufacturing area, our AtS program and general productivity improvements coming from the rationalization of our manufacturing facilities and our production processes. That will kick in quite strongly during the second half of the year. As a result, despite the fact that cost of goods was 17% for the quarter, we continue to expect cost of goods as a percent of sales to be approximately 15% for the full year.

So with that, can I hand it over to Ian? Or did you have something more specific on either one of those items?

Roopesh Patel - UBS - Analyst

Just as the quick follow-up, in terms of products where you said that there have been inventory swings across products as we look beyond the second quarter, are there higher-than-normal inventories with any specific products that you would like to highlight that could unwind in the second half?

David Shedlarz - Pfizer Inc. - Vice Chairman

No. If anything, I think we had higher-than-expected inventory levels for a few products in the first quarter that reversed themselves in the second quarter. Lipitor is a perfect example of that.

Jeff Kindler - Pfizer Inc. - CEO, Chairman

Ian, did you want to add anything?

Ian Read - Pfizer Inc. - President, Worldwide Pharmaceutical Operations

Well, why don't I deal more specifically with Lipitor, as I'm sure there are a lot of questions about it. So we have said in the release and I did comment that in the second quarter, 50% of the decrease was impacted by inventory reductions and differences -- quarter to quarter, we can't explain between our internal data and external data. The external data is sampling data; it's IMS. When we finish the quarter we only have two months of data, and also wholesale inventories are sampling data. So we always have had quarter-to-quarter differences between our reported results and what the script trends would indicate.

So in the first quarter, as we pointed out, this was favorable on inventory and it was favorable in the unexplained category. We also had in the first quarter of favorable rebate that we discussed through true-ups. So in the second quarter, we see a reversal of those transitory items. We see inventory coming back down in Lipitor to normal levels, undoubtedly being adjusted for the run rate they see in the scripts, and we see a reversal of these unexplained items. The rebates in the second quarter had a true-up that was negative, which compounded the impact on the negative performance in the quarter.

These true-ups of rebates are very complex. It's partly due to Part D dual-eligibles, non-eligible's. It takes a substantial time for the claims to work through their cycle. So net net on rebates, first quarter was negative, second quarter was positive. This six-month data is 8% or 10% down on scripts, positive 2% to 3% net price rebates explaining the first half. Overall, we feel we see the rebates being -- the net of pricing rebates being positive in the first half and being positive full year.

Operator

Chris Schott, Banc of America.

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Chris Schott - Banc of America - Analyst

Just two quick questions, please. Going back to Lipitor inventory levels -- I'm sorry if I missed this earlier on the call. But specifically, what were your Lipitor inventory levels at the end of the first quarter and end of the second quarter, just in terms of number of days outstanding, et cetera?

Second, can you talk a little bit more about your decision to return to the Express for [forward] formulary? I guess what I'm asking here is, for some of your more mature products approaching patent expiration like a Lipitor, maybe it's a bit early. But at some point, do you look to manage these franchises through higher price and less rebating, rather than more detailing, even if that means less Tier 2 access? Just any color on that would be appreciated. Thanks.

Jeff Kindler - Pfizer Inc. - CEO, Chairman

Ian, do you want to take those two?

Ian Read - Pfizer Inc. - President, Worldwide Pharmaceutical Operations

Lipitor specifically -- you have to understand that our weeks on hand fluctuate throughout the year, both for the total division and product by product. We manage it on a total division basis. Vis-a-vis Lipitor specifically, at the end of the first quarter we had approximately 3.8 weeks on hand of Lipitor, and at the end of the second quarter we had 1.8 weeks on hand for Lipitor.

David Shedlarz - Pfizer Inc. - Vice Chairman

This is the cycle which is normal in wholesalers. They tend to have largely higher inventories at the end of the first quarter for us, and then adjust them down in the second quarter. So this is not overly abnormal relative to prior-year performance.

Ian Read - Pfizer Inc. - President, Worldwide Pharmaceutical Operations

Correct. Now, vis-a-vis Express Scripts, clearly, this is a -- we see this as a win-win for patients, ourselves and Express Scripts. It's important to get Lipitor back on national formularies and make it available to patients, and clearly we expect the increased volume to be favorable to the overall performance of Lipitor in this contract.

Jeff Kindler - Pfizer Inc. - CEO, Chairman

If I could just add a couple things, prompted by your second question, first of all, with regard to Express Scripts, in addition to what Ian said, we really are working very hard and, I think, successfully to establish new and more collaborative approaches with our customers, Express Scripts being a very important one. They had a significant impact on our share, and it was important for us to get back on their formulary in a good position, to be in a competitive place from which our field force can drive prescriptions. So that's, I think, kind of emblematic of the general approach that we're trying to take across all of our different customers and partners outside the Company.

On the other point that you made, I think is absolutely a good insight that we will continue to think about different approaches to different parts of our business. We have new products, we have in-line products, we have products that are maturing and ultimately going off patent. All of these different kinds of products, different kinds of markets, may require different approaches than perhaps have been taken in the past. We are taking a very good and hard look at how we can optimize different products at different points in their lifecycle, because we recognize that we're really in many different businesses here, and one size certainly doesn't fit all.

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Is that -- you had anything further, Chris?

Chris Schott - Banc of America - Analyst

No, that's helpful. Thank you.

Operator

David Risinger, Merrill Lynch.

David Risinger - Merrill Lynch - Analyst

My questions are about the inventory and rebate swings. I'm sorry to go back to this, but the inventory at wholesalers was obviously above normal in the first quarter, and then it was worked down in the second quarter. But I'm just wondering if you had any thoughts on why that inventory was above normal in the first quarter to begin with, because typically wholesalers by ahead of price increases. Your price increases January 1st each year, and I would think that they would then work down inventory in the first quarter after that. So any color on that would be helpful.

Then in terms of the true-ups that boosted the first quarter and then swung the other direction and hurt this quarter's sales, do you have any outlook for the third-quarter true-up swing or if there might be a true-up swing in the third quarter?

Jeff Kindler - Pfizer Inc. - CEO, Chairman

I'm going to let David start and then Ian can elaborate.

David Shedlarz - Pfizer Inc. - Vice Chairman

Let me come back on this again at two levels. In terms of inventories overall, wholesalers tend to have relatively high inventories from Pfizer in the first quarter, as a historical pattern. This is not unusual. This is when they usually take advantage of whatever largess we offer to them, in terms of pre-price-increase buy-in for the Company. That's not abnormal; it's pretty consistent year to year.

In terms of Lipitor, which is a different situation, I think in some respects, that may reflect the wholesalers reacting to the changing script trend for that product line, and taking the opportunity in the second quarter to kind of catch up to unfortunately the script decline for the product line, to get their inventories back in line in terms of where they see sales going forward over the longer term.

So it was relatively high in the first quarter for that particular product line, and then, with the script trend for the product line, they moved to adjust their inventories during the second quarter. Is that helpful, David?

David Risinger - Merrill Lynch - Analyst

Yes, thank you.

Jeff Kindler - Pfizer Inc. - CEO, Chairman

Ian, anything to add on that?

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Ian Read - Pfizer Inc. - President, Worldwide Pharmaceutical Operations

Was there a second part to the [question]?

Jeff Kindler - Pfizer Inc. - CEO, Chairman

Yes.

Ian Read - Pfizer Inc. - President, Worldwide Pharmaceutical Operations

Well, true-ups -- by their nature, you can't predict them. They are the result of the client cycle over a long period of time. When I can say is we don't forecast true-up movements, but we had forecast an increased rebate rate in our Lipitor business over the second half, which is reflective of what we know that we have been doing on our contracting.

David Risinger - Merrill Lynch - Analyst

Then just one final question. We have seen a little bit of a moderation in the TRx growth of the statin market. I think in the most recent weekly data -- and obviously one week doesn't make a trend, but in the most recent few weeks, the statin market total RX growth has moderated to just under 10%, so it's slipping below the double digits. Have you factored that into your new Lipitor guidance, that the statin market is moderating?

Ian Read - Pfizer Inc. - President, Worldwide Pharmaceutical Operations

We factored in the Medicare Part D when it happened, and we factored into our forecasts the type of growth we saw prior to Medicare Part D in the marketplace as part of our forecasting.

Operator

Tony Butler, Lehman Brothers.

Tony Butler - Lehman Brothers - Analyst

Jeff, sort of a broader question that was alluded to in the press release, but I'm hopeful you'll expand on it. It's with respect to the search of the replacement for the retiring Dr. John LaMattina. I'm curious how, while you have made some commentary around changes internally in R&D, you have been very pleased with a great deal of progress. But I think I tend to be concerned about how leadership, certainly senior leadership, can create additional disruptions. I'd love to for you to spend a little bit of time, if you care to, around how you think about that new person or persons to head up that group.

The second question, again, Ian, is -- and I apologize -- around Lipitor again. But what would be the normalized switch rate for Lipitor if, in fact, we did not have generic simvastatin? So prior to generic simvastatin, what was the normalized switch rate?

Jeff Kindler - Pfizer Inc. - CEO, Chairman

With regard to R&D leadership, we announced John's retirement about two months ago, which may seem like a long time. But in view of the significance of this role for the future of our company, we are working as quickly as we can to find that successor to John, but we're going to do it right. We're not going to rush this any more than is necessary. We're moving very quickly,

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reviewing a lot of candidates externally and internally. We're going to make sure we get the right person for the job. But we are two months into the process, and we're moving as fast as we can.

Your point is certainly well taken. PGRD has been through an enormous amount of disruption over the last several years, starting with the Warner-Lambert transaction, the Pharmacia transaction, AtS, productivity initiatives and the like. No one can argue that that doesn't create disruption, distraction, impact productivity and morale. Clearly, it does. But sometimes, in order to make the changes that one has to make, you have to pay that price in the short term.

What I'm gratified about, though, is that in this time period, John and the rest of the PGRD leadership team have really kept their eye on the ball and are focused on the goals that they have for this year. My experience is that the scientists that are actually working on the programs are most focused on the programs; that's what they care about. If they are leading a program that is really important to them, and they feel they are getting the support that they need to do it, they stay focused on it and they stay focused on delivering on it.

That's not to say that there won't be some disruptive effect from this; there certainly will, but I think much less than I might have feared. I really am, I have to say, surprised on the upside significantly by how well we're doing, in regard to acceptances of the offers we're making to scientists who we are asking to uproot their families and move across the country. The acceptance rate is truly remarkable, and much higher than I would have predicted.

I did mention that we are putting new leaders into place throughout the organization -- a new Head of Research, Rod McKenzie, a long-time Pfizer colleague who has enormous breadths of experience and is bringing some exciting new leadership to that part of the organization; new therapeutic area leaders in different parts of the organization. They are moving on -- the organization is moving on to focus on the programs and the compounds and driving to their results.

It's an organization that has always been very good at focusing on execution. They know what they need to do; they are focused on it. To be sure, there's disruption. There's issues around anxiety and uncertainty that are unavoidable under these circumstances, and therefore I'm very acutely aware of the need to move quickly to establish the new leadership and move forward, and I'm confident that we will do that.

Now, Ian, moving from what might be said to be one side of the spectrum of life to the other, I think there's further questions about Lipitor.

Ian Read - Pfizer Inc. - President, Worldwide Pharmaceutical Operations

I don't have the data in front of me, but from recollection, I suspect that the net switching to Lipitor prior to the genericization of Zocor was probably positive or close to zero. We may have been losing some with the advent of VYTORIN and CRESTOR, but we're gaining in other areas. I suspect it was roundabout slightly positive or zero.

Now, prior to multi-source generic simvastatin, we were about 13,000 negative weekly to generics. We are now back down at that level, as I commented earlier, which -- I am very pleased with that slope. We brought it back from 26,000 at its peak to 13,000 over that period. Now, a switch for us -- if I want to compare what switches were in the business compared to what a new patient start is worth, on a scale of 1 to 10, a switch is probably worth a 6, so a reduction in switches is more important to us than new patient starts.

So when I look at our forecasting, it's a sort of balance between the performance that I'm doing on switches and new patient starts, where we do need to do better. So, looking at our forecast overall, it's clearly dependent upon the market growth, which we see at the levels we see today, our ability to do better with new patient starts, increase reducing the switch level. Basically, that's how I see the model of our forecasting on Lipitor.

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Operator

Jami Rubin, Morgan Stanley.

Jami Rubin - Morgan Stanley - Analyst

A couple of questions -- Jeff, firstly with you. I'm wondering if you could provide a little bit more color on your plans to pursue opportunities in biotherapeutics. As a corollary to that question, I'm just wondering if you could comment on how pleased you are with the pace of change you've seen at Pfizer. Because Biotech has been an area that Pfizer had targeted as an area for acquisitions now for several years, even before you were CEO. From where we sit, we're not seeing a whole lot of action there. So maybe you could provide a little bit more color beyond what was in the press release on the opportunities in biotherapeutics.

My second question is for David, and it relates to guidance next year of \$2.30 to \$2.45. Obviously, it seems that the biggest swing factor is on the revenue side, a \$2 billion swing factor on the top line. Can you give us a little bit more granularity on what we should expect for SG&A and R&D? Because to get to even to the bottom end of that range, assuming sort of a midpoint of the range on revenues, we've got to assume a pretty big haircut to the absolute level of SG&A and R&D spend. I just want to make sure that we're thinking about that correctly.

Jeff Kindler - Pfizer Inc. - CEO, Chairman

I'll start on biotherapeutics. First of all, I think it's always important to emphasize on this topic that the majority, the large majority of Pfizer's products for the foreseeable future will be small molecules. That's our core competence. That's what we're good at. That's still a very, very important area for us and for meeting unmet medical needs. I don't want to be understood to be moving away from that commitment in any way, shape or form.

Having said that, we really do believe that biotherapeutics provides us with lots of opportunities in all kinds of dimensions. It opens up potentially new targets. It creates the opportunities possibly to find new modalities for addressing diseases. It brings with it new research tools and technologies, and it brings with it new people with different backgrounds, different experiences and different sets of expertise. I think we owe it to ourselves to find the best ways of extending our presence in that area.

With regard to our commitment to it over the years, I really can't speak to that. I can tell you that we actually have a pretty substantial substrate in the early stage of our pipeline on biotherapeutics. It's not one that is by itself sufficient to put us necessarily in the leading positions that we want to be in, but it's not nothing, either. We're advancing those compounds very aggressively, and we have a great deal of expertise across the Company in this area.

But we think we need to do more, and we think we need to do it effectively and with a great deal of impact. We're looking at various ways to really kind of jump-start our activities in that area, and we are very excited about those opportunities. All I can ask you to do is stay tuned on that (multiple speakers).

Jami Rubin - Morgan Stanley - Analyst

Can you just give us a sense of timing?

Jeff Kindler - Pfizer Inc. - CEO, Chairman

Well, timing -- it may not be a single step; it may be a series of steps by which this presence is built. It could be steps large and small. We have been and are continuing to enter into both small acquisitions and licensing and alliance arrangements to supplement our existing competencies in that area. But we want to move with as much speed as possible to get ourselves in a

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position to play a meaningful role in this sector as soon as we possibly can. Beyond that, I really don't want to speculate about exact timing on various possibilities.

David Shedlarz - Pfizer Inc. - Vice Chairman

On the expense front, it's too early to give you a breakdown on the individual expenses in SI&A and R&D and cost of goods. What I would point you to, on the other hand, is the continued commitment to reduce the absolute level of spending by at least \$1.5 million to \$2 billion in 2008 relative to 2006 at current exchange rates. So your focus in on the continued benefit from the broad-based productivity initiatives of the Company, and the fact that it is one of the key drivers in terms of the performance in 2008, is quite appropriate.

Operator

Catherine Arnold, Credit Suisse.

Catherine Arnold - Credit Suisse - Analyst

Jeff, I'm wondering if you could reflect on the past half year, if you will. You think about all the give-and-take -- obviously, Lipitor, but other performance issues as well -- and tell me what your thoughts are, sort of, about that on three issues.

One, do you think that guidance for 2007 and 2008, although you're believing still achievable, is more challenging than it was perhaps at the end of the first quarter or the beginning of the year, just because you're getting into the crux of the business a bit more and the challenges are a bit higher?

Two, whether it drives or motivates you to look for material opportunities for further cost reductions than those that have been announced.

Lastly, also, if the health of the business has changed your perception at all in terms of your interest in strategic acquisitions from a scale perspective and from an urgency perspective.

Jeff Kindler - Pfizer Inc. - CEO, Chairman

Well, let me, if I could, kind of pick up the last word you used there and then come back to some of the other things you said. That word is urgency. We are acutely aware of the challenges and opportunities that the industry as a whole faces and that Pfizer in particular faces, and we recognize that we have to address all of those issues with a sense of urgency.

I think that the best way to think about that from my point of view is across a whole host of dimensions. There's any number of different ways that we need to address this on multiple fronts at the same time, and those were some of the things I tried to outline in my earlier comments, everything from increased productivity, cost structure, all the way toward thinking differently about how we perform different businesses, how we operate mature products as opposed to in-line products, as an example, thinking about things like biotherapeutics. There's a range of activities that I've identified that I think we have to go after all at the same time, as effectively as we can.

I think that with regard to the specific question of cost, we certainly have a strong commitment to improving the productivity of the Company and of the cost structure. We're going to continue to go after that to the extent that we can and need to. We're going to be responsible about it, and we're going to think differently about our business model.

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I think, in the end, the real opportunities for improved productivity in our industry have to do with new ways of thinking about business model innovation that could produce even greater efficiencies and things like how we go to market and how we manufacture our drugs and even how we discover and develop them. So we'll continue to do that.

Are there potentially additional opportunities, as you asked, going forward in the future? I think so. I believe that. There's always an opportunity to continue to improve and get better and more productive. We're going to have a very, very strong focus on that as we go forward, as we have been doing already. That will continue to be part of our culture forever -- to get better, to get more productive, to reduce costs, to get more efficient and to modify our business model to better meet the requirements of our investors and the needs of our customers.

Regarding guidance, we do our very, very best to forecast where we think we're going, what we're doing. We have a lot of, if you will, different elements that are available to us to ensure that we do achieve our commitments, and we're committed to doing that where we need to. Is it a challenging environment? There's no question about it. Are we seeing things in that environment that are not what we hoped and expected? Absolutely. Certainly, some of what we've talked about this morning about Lipitor is clearly in that category. On the other hand, we're always happy to see upside surprises and things doing better than we thought -- Chantix and Lyrica and Sutent being a great example of that.

So there's ups and downs, there's challenges, there's many moving parts here to what we're doing. I'm very comfortable with the guidance that we're giving and our ability to achieve it and the commitment of the organization to doing what is necessary to deliver both on our short-term commitments but frankly, even more importantly, our long-term needs as a company.

I hope that's helpful. David? David, I think she had another question for you.

David Shedlarz - Pfizer Inc. - Vice Chairman

What did you have? I'm sorry.

Catherine Arnold - Credit Suisse - Analyst

Well, actually just a little bit more granularity was, is the guidance tougher at this point in the year than you thought it would be at the end of the first quarter?

David Shedlarz - Pfizer Inc. - Vice Chairman

Again, I think as Jeff has outlined, there's some pluses and minuses here which are incorporated in the range. I think the reason for the range is reflecting a natural variability in our business, both for 2007 and 2008.

Operator

Steve Scala, Cowen.

Steve Scala - Cowen - Analyst

I actually have three brief questions. First, were there any one-time impacts on second-quarter Lipitor sales, either positive or negative, due to the Express Scripts arrangement?

Secondly, Ranbaxy's request to the Patent Office to re-examine the basic Lipitor patent is a bit puzzling, given that this patent was upheld on appeal. What can we conclude if the Patent Office does indeed choose to re-examine the patent?

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Third, post demise of torcetrapib, what other combinations is Pfizer exploring to transform Lipitor, similar to what Merck and Schering accomplished with VYTORIN? Are such opportunities in development now?

Jeff Kindler - Pfizer Inc. - CEO, Chairman

Okay. Regarding ESI, Ian?

Ian Read - Pfizer Inc. - President, Worldwide Pharmaceutical Operations

No, there has been no impact as yet. The contract was signed [in effective] of June, and we expect to see the impact of that build over the second half and into 2008.

Jeff Kindler - Pfizer Inc. - CEO, Chairman

Allen Waxman, our General Counsel, will address the Ranbaxy issue.

Allen Waxman - Pfizer Inc. - General Counsel

I do think it is puzzling. They were in litigation with us for four years on the Lipitor patent and chose to never raise this issue, notwithstanding a very aggressive litigation. So I think that speaks somewhat to the merits of the argument.

Having said that, it is not at all unusual, once a request for a patent re-examination is made for the Patent Office -- that's after all, what it's intended for -- it's not unusual for them to allow for the re-examination and then get into the merits. So I would not read much, if anything, into the merit side of the Patent Office allowing for the re-examination. But I do think it's very telling this was an argument that had not been raised in the four-plus years of the Lipitor litigation.

Jeff Kindler - Pfizer Inc. - CEO, Chairman

On your third question, we're always looking at combinations, new formulations, new indications, other opportunities to extend the lifecycle of our products and combine them with others. We've certainly looked at that as it pertains to Lipitor and other products. Of course, in the case of Lipitor, the window for exploiting such opportunities may be somewhat limited. But those things are always in the radar screen for us to examine.

As I was indicating earlier in the call, I think our overall approach to that general subject is going to get more intense. We're going to look much harder as a company at identifying new ways of extracting additional value out of our more mature products. That would be, certainly, part of that exercise.

Steve Scala - Cowen - Analyst

May I follow up?

Jeff Kindler - Pfizer Inc. - CEO, Chairman

Sure.

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Steve Scala - Cowen - Analyst

So do you have any combinations of Lipitor with anything else, perhaps and absorption inhibitor, in development now?

John LaMattina - Pfizer Inc. - President, Pfizer Global Research and Development

You can check our pipeline, which is on pfizer.com, and see exactly where we are on things of that nature. But we wouldn't really go into any specifics right now, for obvious competitive reasons.

Operator

Robert Hazlett, BMO Capital Markets.

Robert Hazlett - BMO Capital Markets - Analyst

You've noted your commitment to diabetes. Exubera currently exists and is [out in] the market today. But what else should we be looking for in terms of being the lead horse in terms of your pipeline efforts there? Is it the DPP-4 inhibitor, the 11b-HSD? Or is this an area in which you would consider licensing?

Secondly, could you just talk about how you -- the Chantix launch has gone very, very well to date. Could you talk about how you might consider building out additional indications or broadening the effort there with Chantix?

Jeff Kindler - Pfizer Inc. - CEO, Chairman

John will take the first question and the second.

John LaMattina - Pfizer Inc. - President, Pfizer Global Research and Development

Thank you. Certainly, you hit a couple of our key programs with DPP-4 and 11b-HSD. I would also say that, if you look at our obesity compound, the CB-1 antagonist, we are certainly looking at that, the potential impact that has in diabetes as well.

Then, as Jeff has indicated a couple of times now, we're always looking for other opportunities in the area of diabetes. We think this is -- the diabetes epidemic will continue to grow in this country, as well as in the Western world, and we are pretty committed to that.

The second -- Chantix. So yes, you have probably seen, for example, the potential of Chantix in alcohol addiction and other things. While our major focus was to get the compound approved for smoking cessation, we are looking at other potential opportunities for Chantix. Jeff has alluded to that as well.

Operator

Seamus Fernandez, Leerink Swann.

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Seamus Fernandez - *Leerink Swann - Analyst*

Just wondering if, David, you could quantify by what percent currency impacted SG&A in the quarter, what currency contributed in the quarter in terms of an earnings impact and then, separately, how much the R&D partner payments to Bristol were in the second quarter.

Additionally, what seasonal factors impacted SG&A? How should we think about that heading into the second half of this year?

Then this question really, I guess, is more for Ian Read. When you speak about rebate flexibility, there are many that argue that there's no incremental benefit of prescribing 10 mg of Lipitor versus 20 mg or 40 mg of Zocor. What are you doing to drive patients to the higher doses of Lipitor, which has shown an advantage? How are you working with managed care, given the flat pricing of competitor products like CRESTOR and VYTORIN?

Jeff Kindler - *Pfizer Inc. - CEO, Chairman*

I'm going to let Alan Levin, our Chief Financial Officer, answer the first set of questions and then Ian will address your second set.

Alan Levin - *Pfizer Inc. - CFO*

With respect to foreign exchange, the impact of currency on SG&A year over year was approximately \$300 million as an estimate for the full year. That is reflected in our revised guidance on SG&A for the full year. For the quarter, it was approximately \$75 million in SI&A and \$33 million in R&D.

With respect to apixaban, we have approximately \$325 million of expenses that were booked in the second quarter for that transaction. That's a combination of milestone payments coupled with costs associated with the development of that compound.

Ian Read - *Pfizer Inc. - President, Worldwide Pharmaceutical Operations*

Clearly, we have a positioning and a strategy we have articulated to move the use of Lipitor to the higher doses, where you have patients who need that level of Lipitor to reach their target. So we are doing that with the data we have; we are doing better with our field force and our marketing programs. I really can't get into the specific details of the contracting because it's confidential. But clearly, our contracting strategy is aligned with that strategy to move the product towards the higher doses.

Jeff Kindler - *Pfizer Inc. - CEO, Chairman*

Thank you, Ian. Well, we have about time for one more question. So if we could get that question, please? Thank you.

Operator

John Boris, Bear Stearns.

John Boris - *Bear Stearns - Analyst*

On your new Lipitor guidance and your fiscal 2007 guidance, can you just give some clarity there whether that assumes -- what you assume on your outcome on the Lipitor challenge in Canada? Can you remind us of how large Lipitor is in Canada a?

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Then I think you mentioned in your release that there's another patent challenge going on in Canada. What's the timing around that patent challenge?

Jeff Kindler - Pfizer Inc. - CEO, Chairman

Allen, do you want to give an update on the Canada situation?

Allen Waxman - Pfizer Inc. - General Counsel

Sure. So there have been various generic challenges in Canada. The ones we are referring to here -- Ranbaxy, in particular -- we had lost the case below to block approval of Ranbaxy's product. That is currently up on appeal, and we're awaiting a decision. This relates to the [ananymer] patent.

At the same time, separate and apart from that issue, there are other crystalline form patents that protect Lipitor and vis-a-vis Ranbaxy. Those cases went to trial -- I guess it was in June, and we're expecting a decision in those cases in August.

In addition, there are yet other patents that protect the product. These patents are somewhat the subject of regulatory proceedings in Canada. There are court cases being decided around what the coverage is that will be allowed for those patents. We will know more from those decisions by year end.

Jeff Kindler - Pfizer Inc. - CEO, Chairman

So, as it relates to the forecast, especially as 2008, the range that we provided you in terms of the top-line performance incorporates the potential outcomes from a legal point of view, as it relates to the patent position that Allen just discussed with you.

Well, thank you, everybody. This concludes our call. We appreciate your time and interest. Enjoy the rest of your day.

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