

FINAL TRANSCRIPT

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PFE - Pfizer at Citigroup Healthcare Conference

Event Date/Time: May. 21. 2008 / 3:30PM ET

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PRESENTATION

Frank D'Amelio - Pfizer Inc. - CFO

Good afternoon, everybody. In (technical difficulty) take Pfizer today and really (technical difficulty) one will be our growth (technical difficulty) I'll peel the onion a little bit (technical difficulty). I'll talk about (technical difficulty) doing there. [And] company. (technical difficulty) I'll look through the slides quickly. Let's see how I want to -- okay.

This first chart is just a summary. We call it our path forward. And think about this as really the three things I just talked about. So maximizing revenue is -- basically there'll be different places where we believe we can create new or incremental sources of revenue, and I'll carve those out. I'll talk to those. Establishing a little more flexible cost base and innovating (technical difficulty) model. If you look at the piece parts here, one of the things we want to do -- continue to do, is I call it take advantage of our size, our scope, our scale. (Technical difficulty) creating smaller, more flexible, faster units within the Company. So I'll get the benefits of both, of large company and the benefits of smaller units within that large company. Then obviously, the perspective of always creating a driving total shareholder return. So this unbundles the previous chart.

It (technical difficulty) in terms of maximizing revenues, the flexible cost base, and then once again innovating on our business model. And on the business model piece, I'll give some specific examples of that later on in the presentation. I'll show you some things we're doing in worldwide pharmaceutical operations, and I'll show you some things that we're doing at PG R&D, just as examples of areas where we've been implementing business model innovation.

But if you just look -- you see here on the maximize revenues, I'll call it what are some of our strategic growth initiatives, [if I could start that way]. Hold on a second. Is this better? So on the maximize revenues, you see, I'll call it our specific growth initiatives here, our strategic growth initiatives. So first, optimize the patent-protected portfolio. Capitalize on established products, and grow in emerging markets and invest in complementary businesses. I'm going to deep-dive on a couple of these, and what I'll try to do as I deep-dive, is give you a feel for some of the opportunity here with numbers. So I'll try to size the market, show you what our current market share is, and then give you a feel for what the opportunity is for the Company.

Then on flexible cost base, you see aggressively manage cost, create a more flexible cost structure, so think about that as a two-step. Lowering the cost structure, which we've been doing, and also I call it making more of the cost structure flexible. Variable. So we can flex as we need to.

So this is just a quick snapshot, basically gives you a feel for the patent-protected portfolio. I'm not going to run through every product. All it's intended to do is show you we have a very broad product portfolio. We're in 10 therapeutic areas, we're in multiple disease areas, so we have a very broad product portfolio, and we have that -- we're obviously leveraging that to the best of our ability.

This next chart is a chart I use on a quarterly earnings call. It just gives a breakdown on some of the product performance, so I've showed you some of the products on the previous chart. What this chart does is it shows global sales, and then it breaks it out between the US and international. It shows 2008 and basically the change versus last year. The thing about this is, Q1 versus Q1, '08 versus '07.

So you can see Lipitor declined, Lipitor has been declining. We've got significant competition there in the US with them, with generics. So if you look at Lipitor, for example, it's down in the US, up internationally. Now much of the international change was due to foreign exchange, but without foreign exchange, it was still up operationally by a few percentage points.

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And then as you look at the rest of the portfolio, you can see Viagra was up, Celebrex was up, Lyrica -- I'll come back to Lyrica. Xalatan, Detrol, Geodon, and then Chantix and Sutent were both up as well. Lyrica just moved into in-line products. What we do is after three years we take it from new, put it into in-line. But if you look at Lyrica, Chantix, and Sutent, all three of those products continue to perform very well, significant growth rates in the US and outside of the US. And you can just -- I'll point to the percentages without reading all the numbers to you. But those are clear areas that we've been doing well, growth rates are good year-over-year.

If you look at prescriptions, Chantix, as you know, has steadied off some due to the label change that we had in January. We're obviously working our way through that and we want to, we're getting ready to do another DTC. I don't want to put a date on that, but obviously as soon as we can. We're optimistic that that will actually help. We think some of the label-change items that have come up with Chantix can be managed through a proactive patient-physician dialogue. So once again, we're getting ready to launch some more DTC there. But I don't want to put a date on when that will be.

This just takes some of those previous products and I'll call it, just gives you a little more granularity. If you look at these, you see Sutent, Chantix, Lyrica, which are three that I called out on the previous chart, and then Geodon. You can look at some of these -- Sutent was 86% globally. You can see some of the keys there. We've launched that in 62 countries to date. By the way, we'll be launching that in more countries in the next 12 months. Those countries include China, Russia, Japan, and then some other, your Eastern European countries. It was recently approved in Japan. We'll be launching it, as I said, in the next 12 months.

If you look at Chantix, that's been launched in 56 countries. We expect another 20 more in the next 12 months. That was recently launched earlier this month in Japan, which as you all know is the second-largest pharmaceutical market. It's been used by 6 million smokers. Refill rates are up 20%. We think about that in terms of adherence. Adherence to them, to the prescriptions.

Lyrica, up 47%. We, obviously, have FDA approval for Lyrica to treat fibromyalgia. There's 6 million people, patients, we believe, that have fibromyalgia, 22% of which are being treated. Most of those folks clearly don't believe they are being treated as well as they could be. So we view that as a significant opportunity for the Company.

And finally, Geodon and some of the things that we've done, found with Geodon.

The next chart shows our pipeline. I'll just touch on this a little bit. This basically shows preclinical Phase I, Phase II, Phase III, and then what's in submission. We're very comfortable with our Phase II pipeline, the Phase III pipeline is improving, we obviously want to continue to supplement that. If you look at the goals that we established, you'll see that the goals are very, I'll call it, late-stage focused. Fifteen to 20 submissions between 2010 and 2012. Fifteen to 20 new Phase III starts by the end of 2009, and 24 to 28 Phase III programs by the end of 2009. So it's not that we aren't looking at all of the different phases and we have metrics and milestones for each, but in terms of what we've said publicly, clearly the goals are very much about supplementing that later-stage pipeline for the Company.

So now what I'm going to do is just take some of those items from the earlier chart and peel them down a little bit, and punctuate them or embellish them with numbers, which I like to do. So you can see here, as I paw through the chart you'll see the numbers.

So earlier -- so late last year, call it November of last year, one of the things that we did is we reviewed all of our disease areas, and if I'll call it, prioritized the disease areas and created what I'll call six invest-to-win disease areas. And this is what those six areas are. We really did that based on, I'll call it, three major buckets. One was a high unmet medical need, second was high market growth, and the third was to be first in class or best in class. So these were the areas that we basically targeted relative to that work. And think about this as, when we say, invest to win, we're clearly biasing our capital into these areas. So capital deployment, resource deployment is being biased in these areas.

We also have stay the course, disease areas and then some of what I'll call the emphasized disease areas. Obviously, we're deploying capital based on how we prioritize these various areas.

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So now, just once again, to do this with some numbers, if you look at oncology, you look at the market today, the current opportunity is, let's call it \$57 billion and of that, we're about 4%. So call it \$2.5 billion. You can see here we believe the opportunity by 2012 is \$80 billion, so the CAGR on that, from where it is today to 2012, is about 7%. And if you look at, I'll call it our assets, in that space, you can see the pipeline, you see what we've currently got in the market. The foundation obviously of our oncology portfolio is Sutent. Camptosar is also in there, and then a few other products as well.

But the point here is we have a very strong pipeline, we obviously want to advance that pipeline in oncology as quickly as we can, and we see this as a significant growth opportunity for the Company, and one of the reasons why it's one of our invest-to-win areas. You can run numbers -- 4% of \$57 billion is \$2.6 billion, if you took 5% of \$80 billion, it's \$4 billion. As I plow through some of these charts, what you'll see is if we can just pick up 1% a share, 2% a share, there are significant upside relative to revenue opportunities for the Company.

I want to go back. Back one more -- that chart there. The other thing I wanted to mention on this chart, which is, we established a worldwide oncology business unit. We recently named a head for that, Garry Nicholson. Once again, I just wanted to point out that that's very consistent with what I said on the first chart, in terms of leveraging the scope and scale of the Company and the bulk of the Company, but also within that, creating smaller, more nimble units with lots of local autonomy. So I call it the balancing act in trying to make sure we get the best of both worlds.

All right. Same thing now on established products, so a similar format. This, by the way, is the fastest-growing segment in the industry. And it's big. You can see here, \$270 billion opportunity today. We see it growing to about \$525 billion (sic - see Slide Presentation) by 2012. Big CAGR. There's a couple of dynamics as you peel the onion on this. First, about -- so if you go from \$270 billion to \$525 billion, so call it \$250 billion. About two-thirds of that are products that are rolling off of LOE. So you have LOE, you know, patent-protected products that are going to become not-patent-protected products. About one-third of that is organic growth. Demand -- true demand. Clearly our focus in this area is on that \$80 billion, that dynamic growth. And the demand that is there. So that's the way to think about that.

If you look at some of the assets here, our portfolio of products and brand recognition. I have a chart. I'll break this out by geography in a minute and give you a feel for how the different geographies quite frankly have different, I'll call it, plays for us. And where we think some are obviously much more marketable than others.

So this is the geography chart. And we've broken it down between red, green, yellow. So let me just kind of walk through the chart. Obviously, red is the US, Canada. If you look at yellow, it's primarily Western Europe. And then the green, Latin America, Eastern Europe, Asia excluding Japan and South Korea, and then the Middle East and Africa. And each one of these has its own characteristics. What we say here is that the market is not homogenous. So let me just peel the onion a little bit on here and talk about why we're focusing on emerging markets.

If you look in terms of the red, so the US, Canada -- we call it -- it's very IP-driven. So it's driven by third-party payors, the pharmacy channel. What happens here is when you go off LOE, there's a big impact. Which is one of the reasons why I always get asked questions about when Lipitor goes off LOE, given the size of Lipitor. But in this marketplace, it's very IP-driven. So when you have the LOE, you have a big impact on the numbers.

When you look into Western Europe, I'll call it -- it's more of a moderate impact. There's still a cliff but it's much more moderated. And then when you look at the green, basically the emerging markets, you see brand is very important, it's a very large market, and the LOE impacts are actually much smaller. And we clearly believe this is a major opportunity for us for many, many reasons. And I have a chart later where I'll talk about why we believe we can differentiate ourselves here. Various folks are talking about the opportunity in emerging markets. The question is, who's going to be successful and why? And I'll show a chart later why I believe we'll execute there and we will be successful.

So now, just putting some numbers around emerging markets, similar to what I did with the oncology charts. You can see here the current opportunity, it's \$150 billion. We have 3% of that marketplace, growing to \$225 billion with 11% CAGR. And I won't

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run through all of the assets and advantages that we have, but you can see here on some of the strategies we obviously want to customize our solutions, our products, to take advantage of those market opportunities, which is why I unbundled the market, and the opportunities within those markets, on the previous chart.

So this chart isn't intended to be -- I'll call it a guidance chart. It's really a chart that's intended to just size the opportunity and to do it over, I'll call it, a reasonable timeframe. So once again, you can see the \$47 billion, 4%. Now this is emerging markets. So think about this as a subset of the overall total emerging-markets chart. If you grew from 4% to 6%, if we grew from 4% to 6%, from today to 2012, we'd just run the numbers, right? Call it 4% on \$50 billion, to make the math easy, is \$2 billion. 6% on \$80 billion is \$4.8 billion. Once again, significant opportunities, these, to produce new sources of revenue, or what I'll call incremental sources of revenue.

If you run it out to 2017, over a 9- or 10-year window, on \$111 billion market opportunity, at 7% to 9%, so if you used 8%, call it \$8.8 billion, so \$9 billion. These aren't targets, and obviously we want to do this and more. But what I am trying to do is just size what the opportunity is for us and why we are excited about, among other areas, the emerging-markets area.

So why do we believe we will be successful in the emerging markets? I've walked through the opportunities, where they are, why do we believe we will be successful. We believe we have unique competitive advantage. I will just lay out a couple and I'll dive into one or two of these. So the breadth of our portfolio. We're in many therapeutic areas, we have many products. We have lots of quality and brand recognition with those products. We have a very strong presence in all those geographies. Our channel, our reach, our footprint, quite frankly, I view as a competitive advantage.

And the last item is we have a lot of experienced local talent that's close to the operations. I will give you one or two examples there, just to peel the onion a little bit. We've been in Brazil, for example, since 1952. We're the number one US pharmaceutical company in Brazil. We've been in China since the early '80s, we set up our first plant there, the late '80s. We have 2,500 people in China today in 117 cities. In China, we're clearly recognized as what I'll call a good responsible corporate citizen. When there was a SARS outbreak, we provided relief. The tsunami, we provided relief. With the recent earthquake, we've provided relief. So we have very good longstanding relationships there, we are viewed there as a good corporate citizen, we view that as just one of many of these markets where we clearly have, we think, big opportunity, and we have longstanding relationships and some advantage.

Now, so let me stop with the revenues and just trying to give you a little bit of a flavor for where we view the opportunities, how big those opportunities are, and then what some of our competitive advantage is to capitalize on those opportunities. Now what I will do is I'll just walk through some of the costs, the cost work that we've been doing. So this is a chart that just shows, I'll call it -- it's a three-year and a quarter view. So the end of '04 to basically our results at the end of last quarter. Give you a feel for some of the work we have been doing. Then I'll follow this up with one or two charts on where do we go from here?

So we see manufacturing sites, 78 to 57. We were actually at -- when we really started the work, 100 sites. We are now down to 57, and I'll show you later, we're obviously working to do better than that. In terms of outsourcing manufacturing, we've gone from 9% to 17%. I'll show you where we're going from here. R&D sites, 15 to 10. Real estate, 80 million gross square feet to 54 million. If you look at our sales force, 36,000 and change to 28,000. And then in terms of total heads, 110,000 to 85,000. That's 25,000 people over a 13-quarter period. So, from my perspective, and I wasn't here for all of this, but lots of good work and, quite frankly, more work to do.

So this next chart just gives you a little bit of a feel for some of the more work to do in some of the areas that we're looking at. It's not meant to be all-inclusive, but to give you a flavor for some of the areas that we're working on. And some of these are just -- I'll call it continuations of the work we have been doing. I showed you on the previous chart, manufacturing sites from 78 to 57. You see here now getting down to 44 by the end of next year. Outsourcing, give or take about 30% of our manufacturing. Those numbers, by the way, 9 to 17 to 30, think about that -- and I'm rounding these -- about \$0.5 billion to \$1 billion to about \$2 billion of our manufacturing costs being outsourced.

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In terms of corporate support, and many of those functions report to me in addition to the finance function, there is still lots more we can do in the area of leveraging our purchasing power, maximizing utilization of our real estate, utilizing shared services throughout the Company, so just lots of opportunity areas there.

And finally, different things that are available to us in R&D, marketing, and sales. In R&D, we're using some new tools, some new statistical modeling to make our trials more efficient. We are leveraging, we call them centers of excellence, emphasis, so you high-throughput screening. Not having that at every location but having it at a hub location that feeds into multiple locations and there is just many, many things like that that are going on throughout the Company. When you are a company the size of Pfizer, no improvement is small because you get the multiplier effect on everything. So every improvement will have a big impact on the numbers.

So, a couple of -- I didn't skip a chart, did I? Having trouble here, just hold on one second please. Can we go back -- I'm trying to go back and it's going forward. Keep going back. Back. Right there. Okay, thank you.

So now, just a couple of examples on business innovation. This first one is on R&D. I'll call it some of the changes that we've instituted, some of the benefits that we've realized. One of the things I should mention is on the pipeline chart that I mentioned before, that was as of February. Since February, we've actually had two compounds that have moved into Phase III -- Geodon for bipolar depression, and our insulin growth factor for non-small-cell lung cancer. So once again, improvements, moving things into a later stage of the pipeline, which is what we're very much trying to do.

We've got one other example here, which is on Axitinib. A little bit on '08 guidance. These are numbers that I provided on the last earnings call. I have reaffirmed guidance on that last earnings call, obviously I'm providing that guidance today. I won't run through all the numbers, but I think just maybe I'll hit the highlights. The revenue number, \$47 billion to \$49 billion. The adjusted EPS number, \$2.35 to \$2.45. Last year, by the way, the revenue number was about \$48 billion and change, the adjusted reported EPS number was \$2.18. Cash flow from operations of \$17 billion to \$18 billion. I'll show a chart on that in a little while.

This cash flow from ops number, you see the \$17 billion to \$18 billion that I just alluded to for 2008. For 2007, it was \$13.4 billion, so you'd say, well, Frank, why so much lower in 2007? We had what I will call a stub payment, a tax payment on the gain of the consumer healthcare business in 2006. We booked the gain in 2006, booked the tax liability in 2006, actually made the payment in 2007, and that was almost \$3 billion, which is why it was lower than we see the previous year than this year.

And then, just to basically wrap this up, this is pretty much what I talked about. I know I ran through all this relatively quickly, but when all is said and done, we're really trying to do three things. One is really take advantage of those revenue opportunities, optimizing our patent portfolio, as I mentioned, seeking new opportunities for our established products, being in the emerging markets in a bigger way, complementary space, and really taking advantage of what we see as potential new opportunities, what I like to call new sources of revenue.

Two, continuing to really work the cost base. If you look at our total cost last year, total cost and expenses, give or take it was about \$30 billion. If you take the cost of goods sold, the R&D, the S&A, all in, it was about \$30 billion. If you think about that cost base, one of the commitments we've made, and that I talked about on the last earnings call and on that guidance chart, is that our total adjusted cost would be down in 2008 versus 2006 on a constant currency basis by \$1.5 billion to \$2 billion. That's on an absolute basis. Understand, it's not just that \$1.5 billion to \$2 billion, but over that two-year period, and on \$30 billion cost base, give or take, 3% inflation is almost \$1 billion a year. So in addition to that \$1.5 billion to \$2 billion, we're also mitigating inflation, which is a good thing and something we obviously want to be able to do as we work the business going forward.

So from a cost perspective, lower that cost base, I believe we have been doing that, to \$1.5 billion to \$2 billion, I think is a good example. I tried to give you some operational indicators as well, and continue to execute and drive more cost out of the business on a going-forward basis.

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And then finally, the whole thing on, I'll call it, business model innovation. I gave you an example in R&D, and I also just tried to give you some other examples relative to the smaller units within the overall bigger company. And that's it. I'm actually right on time. So if you all have any questions for me, if there's anything I talked about that you would like to dig into in some more detail, please come to the breakout session and I'll handle the Q&A. Thank you all for your time and interest, everybody.

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