

FINAL TRANSCRIPT

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PFE - Pfizer at Credit Suisse Group Healthcare Conference

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Catherine Arnold

Credit Suisse - Analyst

PRESENTATION

Catherine Arnold - Credit Suisse - Analyst

Almost good afternoon, everyone. Here we are at a time of really profound political change with challenges abounding not just in the pharmaceutical sector but in the world. The market, obviously, anxiously awaits more clarity on Pfizer's direction as it navigates through these waters and to help us answer that question, we're happy to have the offensive captain, if you will, of Pfizer, Jeff Kindler the Chairman and CEO.

Jeff Kindler - Pfizer Inc. - Chairman & CEO

Hi, everybody. Good to see you. It's very nice to be here today. Before we start, please review the cautionary language. As always it relates to forward-looking statements and non-GAAP financial information contained in today's presentation.

Over the last few months I've talked to many investors about the many changes that we've been making at Pfizer since January of last year. As you all know our Company needed to change to establish a much stronger foundation for future success. And I think the need and wisdom of that has been driven home again recently as unprecedented turbulence has taken over the global economy.

To state the obvious, no one including us is immune from its effects. Nevertheless, Pfizer remains in a very solid financial position. We have a strong balance sheet, excellent liquidity, high credit ratings, substantial operating cash flow and a solid and conservative investment portfolio.

In addition, the changes that we have been making since the start of last year have enabled us to adapt much more quickly and effectively to a fast-changing and often uncertain operating environment. Today we are better equipped to meet the increasing challenges and the opportunities of the global pharmaceutical marketplace and in so doing to enhance total shareholder value now, through and beyond the loss of US exclusivity of Lipitor.

As we've said before, our plans are built around three simple but critical goals - maximize revenues from existing new and diverse sources, establish a lower and more flexible cost base and innovate every aspect of our business model. As we do so, we're transforming Pfizer into a company that is consistently put in two powerful forces to work for our shareholders - first, the competitive advantages of Pfizer's unique scale, global footprint portfolio breadth and resources; and second, our increasing ability to move with the speed, focus and agility of more entrepreneurial organizations. This path will enable us to execute consistently, deliver solid steady results and thereby increase total shareholder return.

Now in January of last year and again in March of this year we made certain commitments to you and you can see them summarized here. These commitments include strategies that involve different and complementary ways to grow our revenue and earnings.

They also reflect a diversity of growth and risk profiles which mitigates the larger risk that undue concentration in the old one-size-fits-all approach created. The results of these strategies will play out over time, some have begun producing results

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already. Others will begin having the most impact right around the time that Lipitor loses its US exclusivity and all of them will continue to improve our top and bottom line in the years after that.

Now we made these commitments very carefully because without an ability to execute, commitments are little more than just words and we had made important progress. We told you that we would optimize the value of our in-line product portfolio. We're doing just that. We have at least ten products that rank number one in their therapeutic categories. In the US more than ten of our medicines posted double-digit gains in the last quarter and we continue to build, maintain and demonstrate category leadership unmatched within the industry.

We told you we would accelerate our pipeline and we're doing just that. In March we committed to grow our Phase III pipeline to at least 24 and as many as 28 new molecular entities or new indications by December of next year. We are on track to achieve those goals.

We told you we would establish smaller more accountable operating units and we're doing just that. We've created six business units with full P&L responsibility.

We told you we would expand into emerging markets and we're doing just that. In China alone, for example, we said in March that we had set a goal of being in 126 cities by the end of this year. We achieved that goal seven months ahead of schedule and we're now expecting to be in 137 cities in China by the end of the year.

We told you we would capitalize on established products and we're doing just that. In both the developed world and in the emerging markets we're identifying new opportunities for medicines that have gone off patent.

We told you we would achieve our financial guidance and we are doing just that.

We told you we would align our cost structure with our revenues and we're doing just that. In fact, we achieved our two-year cost cutting goal a full quarter early. At Pfizer we understand the importance of keeping our commitments.

Now we know we still have lots of work to do but on balance we're pleased with our progress and we believe it will increasingly translate into the solid financial results on which you rightly measure us.

Now we know that our pipeline is a critical way that you measure our performance and in our R&D labs we've changed our leadership team and organization to focus on the compounds most likely to create value and advance them as quickly as possible through the pipeline.

More than a year ago we began taking a hard look at every single therapeutic area and every single compound, everything. We made tough decisions, decisions we wouldn't have made a few years back. For those that met our criteria, we are investing to win. And for those that didn't, we're pursuing other options including, in some cases, a swift exit.

Now we've made that review a part of our ongoing operations and we're making tough choices. We're focused primarily on six disease areas where our capabilities, the science and the marketplace tell us that we should invest to win - oncology, pain, inflammation and immunology, diabetes, Alzheimer's disease and schizophrenia.

Looking at our entire portfolio as of our last pipeline update on September 30th we had 114 programs in the clinic and more than 300 projects in discovery. Since that time, while we terminated the development program for our Phase III Obesity candidate, we also earned US approval of Toviaz to treat overactive bladder. We are now in the process of launching it across Europe.

We also finalized an agreement with Medivation to develop and commercialize Dimebon, a Phase III candidate to treat Alzheimer's disease. Our leaner, faster research organization is moving quickly to optimize the value of our R&D portfolio in ways that we have never done before.

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We have moved each therapeutic area research team to a single site rather than having them spread out around the world. Each therapeutic area with its own culture and its own approach is now led by a world class scientist empowered to make important decisions like target selection with no further review from above.

Most importantly, we set out and shared with you clear and aggressive goals for our scientists. Everyone is keenly aware of those goals - 15 to 20 Phase III starts this year and next, 24 to 28 programs in Phase III by the end of the next year and 15 to 20 submissions over the period 2010 to 2012.

Now just since March when we set out some of these goals for you, we have advanced 31 programs including 8 Phase III starts. And we now have 16 biotherapeutics in development including a fully human monoclonal antibody that recently began Phase III testing against non-small cell lung cancer, the leading cause of cancer death in the United States. In addition, our new Regenerative Medicine unit is actually opening today at our labs in Sandwich, England and they will be exploring new opportunities in stem cell research. In short, we remain on track to meet our R&D commitments.

Now at the same time we are keenly focused on aggressively managing our cost base. We told you at the beginning of last year that by the end of this year we would reduce our absolute adjusted costs by at least \$1.5 billion to \$2 billion compared to 2006 on a constant currency basis. We achieved that goal a full quarter ahead of schedule. And even after absorbing inflation and reinvesting in the business.

From January of last year through the end of this year's third quarter, we reduced our absolute adjusted costs by more than \$1.7 billion. As a result of our progress, we've increased our cost cutting target to at least \$2 billion by the end of this year. We have created a culture of ongoing cost consciousness across Pfizer. Since December of 2004 we've reduced our manufacturing sites from 78 to 48 and we've almost doubled manufacturing outsourcing. We've reduced workforce from 110,000 to below 84,000.

But these reductions did not damage our revenue drivers. For example, physicians still rate our US sales force as number one in the industry and that's for the 13th year in a row. In R&D, more than 70% of the scientists that we wanted to retain from sites that we exited have transitioned to the sites that we preserved. And we also have hired many talented new scientists.

Looking ahead, we'll continue to draw on additional opportunities to reduce our cost structure and create a more flexible and agile organization. We are committed to proactively sizing the Company to align with our revenues which will permit us to maintain an operating margin on an adjusted basis in the mid- to high-30s.

All of this work implemented by an organization that is intensely focused on execution has kept us on track to meet and even improve upon our full year objectives for 2008 despite the challenges specific to our Company and those more general to the economy and the industry. As a result, we're again able to reaffirm our financial guidance for the year. And that guidance is summarized on this chart.

Looking ahead, we're constantly reviewing business development opportunities. We have said many times that we see business development as a way to supplement the pursuit of our strategies. Our criteria for deals has not changed even as the global economy has changed. In short, we're not going to buy the wrong asset just because it's cheaper, although we're fully aware that global drops in valuations do make some assets more attractive.

In addition, a streamlined and focused organization enables us to pursue targeted business development that successfully supplements our existing assets. Our move to a business unit structure creates single points of accountability in business unit leaders who are empowered to bring the best deals forward and to make sure the opportunities are right for Pfizer, they will compete for the capital needed to complete those deals.

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Now these business units grew from our strong belief that establishing smaller operating unit would enhance innovation and accountability and promote an entrepreneurial spirit all while drawing on the advantages that our scale and resources can provide where that's appropriate.

Now I first outlined this approach to you in January of last year shortly after I became CEO. Because the needs of our customers - patients, physicians, payers, governments - vary considerably by therapeutic area and geography, we needed to empower and hold accountable those that are closest to our customers. The best way to meet their needs while creating value for our shareholders is by organizing our businesses around our customers. Now this may seem obvious but, frankly, it is not how Pfizer or other pharma companies have operated in the past.

Our approach is to give each business unit the power and the accountability to make decisions tailored to specific customers in specific markets. In addition to our existing Animal Health business and our recently created Oncology and Established Products units, we have now created three new units focused on Primary Care, Specialty Care and Emerging Markets. Each of these business units will spend clinical and commercial development, medical, marketing and sales, with established products actively managing products that have lost exclusivity.

The individuals leading these units have a role similar to that of a chief operating officer with authority and responsibility to ensure that each business unit exploits appropriate revenue opportunities, grows profitably and has an efficient cost structure appropriate to their business.

Now while this new structure takes complete effect on January 1, we are already seeing results from some of the practices that we've already put in place. For example, in the United Kingdom by reengineering our traditional field based sales approach we were able to change 400 traditional sales to 100 account managers. And through the third quarter of this year operational growth in the UK is 9%.

In Germany, we put a new customer engagement model in place that allowed us to reduce our general practice field force by 25%. We now have fully integrated teams accountable for the entire portfolio and this has generated significant positive responses from our customers as an innovative new model.

In Sweden, we replaced all of our traditional reps with account managers who changed their focus from general practitioners to new customers in key opinion leaders. This has enabled us to target our resources where they can produce the best results and after we made these changes Lipitor sales in Sweden went from being flat to negative to 5% operational growth in the first three quarters of this year.

Here in the US, we're scaling up a number of new approaches. For example, we're shaping a new commercial model whose foundation is closed loop marketing, a data-driven, interactive selling approach where we are shifting from a brand-centric to a customer-centric focus.

In addition, we are identifying which responsibilities, including P&L, are best managed locally which includes resourcing responsibilities and accountability for profitable growth. Together these initiatives will transform our US commercial model from the way we deploy our field force and resources to the way we interact with customers and, of course, to the results we achieve for our shareholders.

This business unit model reflects the fact that not all customers want the same thing. And we are tailoring our products to meet their needs. Established products are a good example and many of the opportunities for these products can be found in emerging markets.

Established products are, in fact, the fastest growing segment of the global pharmaceutical market. This market was about \$271 billion in 2006 and is expected to grow to about \$523 billion shortly after Lipitor goes off patent in the United States. And some

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\$80 billion of the expected growth is from organic growth, meaning it comes from increased uses of these products particularly in emerging markets.

The emerging markets have been and are likely to continue to be, notwithstanding the current global slowdown, among the fastest growing economies in the world. There are billions of potential new customers in these areas as disposable incomes increase, health systems evolve and infrastructure is created. Our plan is to capture a greater share of these opportunities by focusing on countries where we have a strong presence like China, Turkey, Russia, Brazil, Mexico and India and leveraging our world class manufacturing strength and brand reputations.

We are already making strong progress in meeting and exceeding our goals. Let me just highlight a few. For the first nine months of the year Brazil grew 38%, China grew 72%. In Russia we're increasing our field force by 40% and Turkey grew 28% and launched nine new products.

Now lots of companies talk about emerging markets and established products, I know that. So why do we believe that we can succeed better than our competitors, especially as the global economy grows more uncertain? Well, for starters, we are already doing so. We're successfully competing in these markets today and have been a leader in many of them for many years. To others these may be new markets. To us, it's our home turf. We've been in India, Brazil and Turkey since the 1950s, in China since the early 80s and in Russia since the early 90s. We know these countries and they know Pfizer and our medicines.

We are enthusiastic about these opportunities but we look at them with the same analytical eye we bring to every other part of the business. We do believe that growth in our emerging markets will continue to outpace the US, European and Japanese markets through any global recession.

Now we recognize that emerging markets also have risks including the fact that they are certainly not immune from global economic conditions. But while these markets have risks, they are different risks from those associated with our historical focus on developing blockbuster drugs for developed countries. So for our shareholders, this diversification of risk will contribute to more consistent performance over the longer term and that's why we've made a long-term commitment to these markets. We see enormous opportunity as the middle class grows, as healthcare infrastructure expands and as IP protections improve.

As you can see, we've been doing a lot at Pfizer and we have a lot more to do but we have significant competitive advantages that position us well to move forward. We're a truly global company. With our track record of placing talented local leaders in local markets, we have the right combination of business and cultural qualities needed to grow around the world.

And, as I've said, our revenue comes from diverse sources from a wide variety of therapeutic areas and geographies from patent protected medicines and from those that have lost exclusivity. We've realigned our operations into business units, we're proud to have the largest pipeline in the pharmaceutical industry, we have real financial strength. And in this market, particularly this economy, we are fortunate to have good access to capital markets as our credit ratings demonstrate reflecting our long-standing commitment to operating in a prudent fashion.

Of course we're keenly aware of the challenges that we face as a company and as an industry. As we look ahead to the post-Lipitor era, we know what we want and expect Pfizer to look like. We'll be known for our broad, robust and diversified portfolio of products - Human Health and Animal Health, Primary and Specialty, Large Molecule and Small, On-Patent and Off-Patent. We'll post industry leading adjusted operating margins in the mid- to high-30s, our commercial teams will be lean and flexible consistently delivering what their customers need and want. Our business units will aggressively look for the next opportunity and will be able to change quickly to meet the demands of the marketplace, our manufacturing will continue to be best in class, our R&D portfolio will deliver high value products to our customers and our balance sheet will remain strong and solid.

A company with these characteristics will be well-positioned to seize the opportunity that globalization and successful innovation bring and to deliver strong, consistent results. We believe our assets, our reach, our global footprint and our sharply focused and fully accountable business units uniquely position us to succeed. We have made fundamental organization, leadership and

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cultural changes at Pfizer over the past two years, changes that are making us leaner and quicker while taking advantage of our skill where that makes sense.

We've made a lot of progress but we're far from done. We're not where we want to be but we are well on our way. Thank you very much.

And I guess we have a couple of minutes for questions. Right?

Catherine Arnold - Credit Suisse - Analyst

We do.

Jeff Kindler - Pfizer Inc. - Chairman & CEO

And I'll come over there if you don't mind.

Catherine Arnold - Credit Suisse - Analyst

Please do.

QUESTIONS AND ANSWERS

Catherine Arnold - Credit Suisse - Analyst

I'm going to kick off a question and then look to the audience, as well. Jeff, you described the Pfizer of the future in one of your last slides and the characteristics of the Company. If I were to encapsulate and simplify the most fundamental question that I hear from the investment community, it would be whether or not Pfizer will be a bigger or smaller company in the future. How would you respond to that?

Jeff Kindler - Pfizer Inc. - Chairman & CEO

I think the best way to answer that is we're doing two things at once. We're doing everything we can to grow revenues while being very dynamic about adjusting the costs of that. So a lot of exactly how that might look will depend on opportunities and how successful we are in generating these increased revenues from both internal and external sources and managing the cost base accordingly. And I guess that while you could look at it on a consolidated basis, bigger versus smaller, these business units give us the opportunity to in some ways get smaller in order to grow faster. But exactly what the revenues and earnings of the Company will look like after Lipitor, I think it's too early to say.

Obviously we have a sense of urgency. The clock is ticking. There's three years to go but we are very aggressively growing both revenues and managing costs so as to position ourselves for the best profitable growth after that time.

Catherine Arnold - Credit Suisse - Analyst

Questions from the audience?

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Unidentified Audience Member

Maybe if you could be a little more specific after 2012. You are still talking about operating margins in the mid- to high-30s. How are you going to do that in spite of not only losing Lipitor but after 2012 continually, year after year, you still have patent issues. And they are on significant-sized drugs. So I'm just -- I'm not even sure how you can maintain that type of operating margin structure.

Jeff Kindler - Pfizer Inc. - Chairman & CEO

Well, I guess I'd say a couple of things about that. First of all, I think really Lipitor is in a distinct class from some of these other LOEs. Even in the last few years we've had some significant LOEs and, as you've seen from our results we've worked our way through them and we expect to continue to do that. But ultimately we have to be proactive about sizing the cost space and growing revenues at the same time. The two things go together and we're aggressive on both ends of that.

Again, 2012 is a very important time point, obviously. And our job, as we've already started doing between now and then, is to both grow the top line and manage the cost base accordingly.

Unidentified Audience Member

Don't you think though maybe Pfizer should start to think about committing to mid- to high-30% margins? Like, perhaps it might be fair to say that the model is changing and it seems that Pfizer is, by their comments, might not even consider that that is an option.

Jeff Kindler - Pfizer Inc. - Chairman & CEO

I'm sorry, that what's an option?

Unidentified Audience Member

That the model could be changing and maybe these types of operating margins are just not even possible anymore. Obviously, investors are telling you that with the stock price the way it is.

Jeff Kindler - Pfizer Inc. - Chairman & CEO

All I can tell you is we have our plans and our goals to achieve those kinds of industry-leading margins and that's what we're doing everything we can to achieve.

Now clearly the model is changing. There's no question about that and one of the reasons that we're creating these separate business units is so that the right model can be deployed in different marketplaces. What I've tried to emphasize is that a model varies depending on the therapeutic area you're in, depending on the geography that you're in. The Established Products business is going to have a different cost structure than the Oncology business. And the field force approach in China is going to be different than it is in the United States. So I just don't believe that it's a one-size-fits-all answer to that question.

Catherine Arnold - Credit Suisse - Analyst

One more question and then we'll go to breakout.

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Unidentified Audience Member

(Inaudible question - microphone inaccessible)

Jeff Kindler - Pfizer Inc. - Chairman & CEO

So Rick is asking me about buybacks. We have a lot of different ways in which to deploy capital to improve total shareholder return. Dividends and buybacks are certainly part of the equation as well as other things and we pursue those opportunities in the way that we think makes the most sense.

Unidentified Audience Member

(Inaudible question - microphone inaccessible)

Jeff Kindler - Pfizer Inc. - Chairman & CEO

I understand your point.

Catherine Arnold - Credit Suisse - Analyst

There's a breakout in the ground room at the end of the hall.

Jeff Kindler - Pfizer Inc. - Chairman & CEO

Thank you.

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