

Thomson StreetEventsSM



Conference Call Transcript

PFE - Pfizer at Deutsche Bank Healthcare Conference

Event Date/Time: May 19, 2009 / 07:15PM GMT

May 19, 2009 / 07:15PM GMT, PFE - Pfizer at Deutsche Bank Healthcare Conference

CORPORATE PARTICIPANTS**Frank D'Amelio***Pfizer - CFO***CONFERENCE CALL PARTICIPANTS****Barbara Ryan***Deutsche Bank - Analyst***PRESENTATION****Barbara Ryan - Deutsche Bank - Analyst**

Good afternoon, everyone. I'm still Barbara Ryan. I want to thank you all for hanging till the end of the especially want to thank Pfizer and specifically Frank D'Amelio, the Company's Chief Financial Officer, for joining us today. In the audience somewhere we have Chuck Triano who is head of Investor Relations.

As many of you may know, Frank joined Pfizer in September of 2007 as Chief Financial Officer and before that he was Executive Vice President of Integration and Chief Administrative Officer of Acutel Lucent where he probably gained some skills that will be useful over the next 12 months with the integration of the Wyeth merger. Prior to the merger of Acutel and Lucent, Frank was the Chief Operating Officer of Lucent. Frank was born and raised in New Jersey and earned his MBA in Finance from St. John's University.

With that, you're not here to hear me. I'll turn the podium over to Frank who will make some brief remarks and then again we will have an open Q&A after that. Thank you.

Frank D'Amelio - Pfizer - CFO

Thanks, Barbara. Good day, everybody. So, I've got several charts I'll run through. I'll run through those fairly quickly, make sure I leave some time for Q&A and we'll just get started.

So, the way I thought I would do this with my charts was just very quickly to go through some of the top investor discussion topics that I've been getting asked in various meetings. We announced the Wyeth transaction on January the 26 and I've had many, many investors meetings in between then and now. This is intended to just give you all a summary of, I'll call it some of the major areas where I've been getting asked questions.

You can see here, financial guidance, the Business Unit and R&D structure, the integration process and progress to date, regulatory pathway for approval, 2012 financial targets, financial priorities and considerations given the strong cash flow target in 2012, and then finally potential legislative reform initiatives. These are the areas where I get asked questions. I thought what I would do just proactively, touch on each of these and then we can dig into these when we get into the Q&A.

So, first, and I always like to start with guidance. This is our 2009 financial guidance. We reaffirmed this on our last earnings call. You can see the various elements of the guidance, from revenue down through the EPS number, the effective tax rate, so forth and so on. One of the things I always like to say is we're in May of 2009. I'm sure when we get into the Q&A I'll get asked some questions about beyond 2009. But kind of job one is to make sure we do what we said we were going to do relative to our commitments for this year which is the 2009 calendar year.

Alright, let's move a little bit to what we're doing now with the new Company. So, you can see here, this is the planned business structure to provide enough flexibility and accountability in the new Company and think about this as how we're going to organize the Company. So, two groups. There's a BioPharmaceuticals group and five Business Units within that group. And I'll show you who these jobs -- who has these jobs on the next chart. And then a Diversified group and the four Business Units that make up that group.

May 19, 2009 / 07:15PM GMT, PFE - Pfizer at Deutsche Bank Healthcare Conference

So, you can see on BioPharmaceuticals, primary care, specialty care, and vaccines, oncology, established products in emerging markets. By the way, pretty much the lineup that we have in Pfizer today, if you think about how we have our Business Unit structure laid out, with the vaccines being kind of an add, and if you look at Diversified Animal Health which we also have today in Capsugel, Consumer Health, and Nutritional Health.

And then if you look at how - what will be in there and how things will be organized kind of within the BUs and in support of the Business Units, you see research off to the left there from a pharma and BioTherapeutics perspective and then in those Business Units above will be Development, so from proof of concept on and that will be in the Business Units and those Business Units -- think about it as leaders of those Business Units with focus on those businesses with P&L accountability and driving those units.

So, from proof of concept on from a Development perspective in those Business Units as well as Medical, Sales and Marketing, with manufacturing kind of across the Company supporting those Business Units and then the support function there being the enabling functions of the corporate support functions as you all know them; finance, IT, procurement, facilities, HR, law, those kinds of activities.

This here just shows the commercial operations and who's in, who's basically got the jobs that we laid out post-close relative to that structure I just laid out. A couple of things to the chart. One is the reason they're different colors is - I'll call it the burgundy-ish, our folks from Pfizer and then the light coloring is really folks from Wyeth. We very much -- it's not by accident. We're very much trying to make sure that we keep the Wyeth talent, particularly in those areas where they've been in businesses and making some headway in areas where we haven't been.

So, you can see that on the chart. So, you can see Ian Read here leading the BioPharmaceuticals group, Cavan Redmond leading the Diversified business. And then once again, you can see the various leaders of the Business Units that fall within each of those groups. And just to punctuate the point I made before, for example in Specialty Care and Vaccines, you see Geno Germano who is the President of that unit from Wyeth and then underneath that, kind of the Specialty Care and Vaccines, think about that as almost a vaccine subunit within the Business Unit, once again to keep the focus on that area which we view as a nice area for potential growth.

Now, just quickly on research, once again, taking that previous chart and just blowing it out a little bit, some sub-ledger detail. We'll have two research groups, the PharmaTherapeutics group and the BioTherapeutics group. And you can see some of the rationale here in terms of delivering positive proof of concept to the Business Units across key therapeutic areas. We're organizing those into research units; oncology, pain, immunology would be a research unit. Technology units would be things like tissue repair, peptides, those kinds of areas.

Clearly, what we're trying to do there is really leverage the best of both of those operations in terms of expertise in small molecules, expertise in large molecules, and really leveraging our expertise, the combined Company's expertise post-close in both of those areas. That's basically what we're trying to do and what we are trying to do there.

A little bit on Wyeth and once again, this is another area where I'm in investor meetings I get asked lots of questions relative to the Wyeth acquisition. So, I thought what I would just do is very quickly kind of progress to date and then some of the work to be completed. Quite frankly I could spend the whole meeting on just this. Let me blast through this chart and then, once again, we'll take questions after I'm done.

The original loan which was \$22.5 billion when we announced the deal with five banks has now been syndicated to 34 banks with no bank having more than slightly less than \$600 million of the paper. We finalized the credit agreements. We filed the Hart-Scott-Rodino notification and we have received, as expected, the second request from the FTC. We fairly recently completed a \$13.5 billion note offering here in the U.S. I'm assuming many of you are familiar with that. The terms on that were 2-3, 6-10, and 30 year paper.

We filed and amended preliminary S4 for SEC review. We announced the new organizational design and the senior leadership team post-close for commercial and research and that is what I was just showing you all on the previous charts. And then we actually have a European road show on the way right now. We're actually -- my treasurer and one of my assistant treasurers are actually meeting with investors in Europe as we speak, exploring opportunities over there relative to the capital markets.

In terms of additional work to be completed, so this is, I'll call it my To Go list. There's a whole bunch of To Go items, but these are the major To Go items. Obviously, first and foremost, back to my first chart, continue to execute on our '09 goals. Obtain regulatory approvals. You see here the FTC in the U.S. but also in Europe, China, and the other countries that are involved.

We need for the SEC to declare the S4 effective, Wyeth to obtain shareholder approval, continue to develop detailed synergy plans -- that's an area where there's, as you can imagine, lots of work going on. We have work streams that we've paired up, both companies, 15, 20 work streams per Company that pair up leaders of each work stream.

May 19, 2009 / 07:15PM GMT, PFE - Pfizer at Deutsche Bank Healthcare Conference

We have project management offices. The joint project management offices meet literally every week. That includes myself, Greg Norton from Wyeth, we each have our PMO leaders that are on that team. We meet every week. It's actually a terrific way to deal with things very quickly so that they don't linger. Our PMO, our project management office for Pfizer literally meets every day. We start every business day with an integration update, kind of where are we, what's been done, what do we need to do. So, it's got -- the word I like to use, it has a good rhythm. There's a good cadence to what we're doing right now which is critically important.

We continue to look for opportunities to further reduce the bridge facility. The bridge facility now is \$9 billion. It was originally \$22.5 billion that I mentioned a little while ago. We did \$13.5 billion in debt. There's \$9 billion left and as I just mentioned, we continue to explore opportunities to further reduce that.

We obviously want to continue to retain key talent from both Pfizer and Wyeth and hopefully those charts I just showed you just demonstrate that we think we're making progress in that area relative to the senior team and obviously we need to close the transaction. That's something that I've said and the Company has said we expect to happen end of Q3, Q4 of this calendar year.

I thought I'd just put out our -- just allude to our 2012 financial targets again. These were targets that we issued when we announced the Wyeth transaction at the end of January. So, you can see here what the targets are. There's give or take a half a dozen targets here. Total revenues, you see the number there. \$70 billion which is roughly what the two companies did in 2008. Last year, Pfizer did about \$48 billion in change. Wyeth did give or take about \$22 billion. Sum of those two is roughly the \$70 billion you see here.

Adjusted operating margins in the high 30s to low 40s. Adjusted diluted EPS which would be comparable to Pfizer's 2008 results which was \$2.42. \$20 billion plus in operating cash flow. A cash position that would be net positive. And then on portfolio diversification, no product that would be more than 10% of our revenue where today, for example, in Pfizer standalone, if you look at Lipitor revenues, Lipitor revenues in any given quarter are give or take about 25% of our revenues, just in terms of the numbers.

Alright. A little bit on financial priorities is an area where I get asked lots of questions. So, you could here the \$20 billion in operating cash flow with a net cash position targeted for 2012. What the intent of this chart is to do -- is intended to do is the following: it basically says as we're generating that much operating cash flow, which by the way is pre-CapEx, pre-dividend payments, but still, it's a lot of cash flow. What are going to be the areas? It will give us a lot of financial flexibility and then what will be the areas we'll be focusing on relative to how we deploy that capital?

So, you can see on this chart, the various areas that we'll be looking at relative to the deployment of that capital. The dividend payment, share repurchases, repatriating less offshore cash. And obviously one of the items there is we raised our tax rate this year, the effective tax rate from what was 22% last year to 30% this year. When we did that, that obviously adversely effected earnings. If you looked, when we said our '09 guidance, we built this bridge that took us from 2008 to 2009. That tax rate adversely effected earnings year over year by what was \$0.21 on that chart.

So, one of the things we could chose to do is repatriate less cash which would cause the tax rate to go down which would cause earnings to go up. Just in terms of some of the various options that we'll have available to ourselves. Another one, obviously is to reinvest to support the EPS growth. That reinvest there, think about as for example business development. This past quarter, in addition to Wyeth, we did other business development activity as well. We announced a marketing relationship collaboration with Bausch and Lomb. We announced some of the products that we procured from Aurobindo, 51 products in solid oral dose and sterile injectable products. And we announced the joint venture with GSK in the area of HIV. And finally, to repay debt.

All of these would be areas, options that we can consider based on the financial flexibility that we'll have as a result of the operating cash flow that we are targeting, that we expect to generate come 2012.

Alright, a little bit on potential legislative reform initiatives, another area that's been getting lots of discussion, lots of press. Obviously, one is expansion of coverage and clearly as a Company we believe that all Americas should have access to high quality, affordable healthcare. So, we're very supportive of that. The only issues there I think are how do we go about doing that.

Medicaid rebate changes, that's clearly been something that's in the administration's proposals. The incentive to innovate which we obviously think is a good thing. We spend lots of money on R&D. We think innovation, particularly where we can bring solutions to patients and doctors that meet unmet or that address unmet medical needs are something -- that's what we're all about. And that obviously we should be compensated and rewarded for that.

May 19, 2009 / 07:15PM GMT, PFE - Pfizer at Deutsche Bank Healthcare Conference

Focus on preventative care. By the way, if you dissect how care dollars are spent in this country, and you all know this, about \$0.75 of every \$1.00 is spent on chronic disease. So, think about things like heart disease, cancer, diabetes, almost \$0.75 on every dollar. We think clearly through prescription medication, through prevention, there's ways to more effectively spend that money.

And then tax reform for multinational corporations. This is another area where I could spend a lot of time on, but I think what I'll do is wait and see if you all want to take that up in Q&A. There's a lot going on relative to tax reform. The area that gets the most attention at least in terms of questions I get is deferral reform. So, we can clearly talk about that if you all want in the Q&A. The one thing I'll say there, from a positive perspective is what you hear me talking about is deferral reform. You don't hear me talking about deferral elimination. I view that as a good thing but we can get into that in more detail if you all would like in the Q&A.

Okay. That's pretty much it. I said I'd blast through these charts pretty quickly.

Barbara Ryan - Deutsche Bank - Analyst

Thank you, Frank. You're a man of your word.

Frank D'Amelio - Pfizer - CFO

I try.

QUESTION AND ANSWER

Barbara Ryan - Deutsche Bank - Analyst

I wanted to lead off with a question that I know I've been getting all the time. It seems as though there is a lot of misinformation perhaps out there as it relates specifically to your dividend. There's a perception that the dividend cut of 50% that you took when you announced the merger with Wyeth was somehow linked to the bridge facility. My understanding is that that was a board level decision that was made. You can go into the reasons if you chose to or not. And therefore, since the bridge loan is declining significantly to now \$9 billion, that there's going to be some dramatic increase in the dividend. I got a call on Friday from a shareholder who said they thought there was going to be a 50% dividend hike. And I said, "If you own Pfizer because you think the dividend's going up 50% this year, you should sell it." So, you can give whatever comment you want to. But it seems like there's a little bit of leaps being made.

Unidentified Audience Member

(Inaudible question - microphone inaccessible)

Frank D'Amelio - Pfizer - CFO

No comment. Let me make a couple of statements on the dividend in general and then, Barbara, I'll answer your question specifically as best I can. So, first, just in terms of how we, as a Company, handle the dividend in any given year, so if in 2010 when we get ready to announce, declare what the dividend will be for a given year, we typically announce that in December of the previous year. So, for example, for 2010, we would typically announced the dividend for 2010 in December of 2009 which is what we're currently planning on doing for the 2010 dividend. I'm not going to make any announcements today about the 2010 dividend will be.

Quite frankly, from my perspective, what's most important right now, there's a lot of things on our plate, but from my perspective, what's most important is a couple other things I alluded to when I whipped through my charts. One is doing what we said we were going to do in 2009, meeting our guidance, having good quarters. Q2, Q3, Q4, delivering on everything we said, continuing to basically kind of beat a good drum beat relative to meeting our commitments and then secondly closing the transaction with Wyeth. So, to me, those are the two things we need to get

May 19, 2009 / 07:15PM GMT, PFE - Pfizer at Deutsche Bank Healthcare Conference

done this year. In terms of the dividend for 2010, we'll clearly talk about that -- we plan on talking about that in December of 2009 as we would in any year. I just want to make sure I say that.

In terms of the actions we took, let me maybe put a little bit of context around that and see if I answer your question. Remember, we announced that transaction in January of 2009. Those were interesting times from a capital markets perspective. There wasn't a lot of money available. We were able to raise \$22.5 billion with five banks at a time when it wasn't easy to raise money and one of the things we wanted to make sure is we were able to finance that transaction in, I'm going to call it a very prudent way.

So, we took a couple of actions as a Company. One was we reduced the dividend by 50%. Let me make sure I say that again. We, as the Company, took these actions, obviously with the leadership team and the board of directors. We also decided to increase the tax rate so we could repatriate more in year overseas profits into the U.S. to help with the financing of the transaction. The reason we did that, Barbara, was really all about financing the transaction. I want to make sure I say it again. We did that. That's how I would think about that.

Barbara Ryan - Deutsche Bank - Analyst

Thank you.

Frank D'Amelio - Pfizer - CFO

In terms of the bridge, you mentioned the bridge. The bridge facility. We have two agreements today. If you look at everything that's been publically provided, there's the credit agreement which really is the bridge facility. And then there's the merger agreement with Wyeth. And those two agreements do have certain constraints on how we deploy capital, through the end of the year, or quite frankly through close. And some of those constraints are in areas like what we can or can't do or how much we can do, really, in business development. What we can do on share buybacks. What we can do from dividend payments or the amount of dividend payments. So, each of those agreements touches on many areas but those three areas are obviously areas that each of the agreements touch on.

But what we did from a capital structure perspective, what we did in terms of financing the transaction, we did. And then obviously we negotiated the agreements as we needed to to get everything lined up to announce the transaction. That's how I'd answer your question.

Barbara Ryan - Deutsche Bank - Analyst

Thank you. That's helpful. I think you sort of addressed this, but in some of the answer to that. I would assume that acquisitions of small and development stage companies that would continue to grow your pipeline are still also on that list for use of cash with the priority being, obviously, in the short run, paying down debt

Frank D'Amelio - Pfizer - CFO

So, the way I think I would answer that is in terms of what's the best way to deploy capital now, I think job one is getting Wyeth closed and then execute. The way I think about it is we got a lot that we're doing, a lot of planning, integration planning now. Once we close, we go into our, I call it, integration implementation. We start executing on the plan. The visual I like to use and this is we try to do this as much as we can, I call it the play book. We want the play book done by close. And then once we close, we want to be calling plays and executing plays, running our plays. So, that's kind of how we think about it. That's what we're all about. That's clearly what we'll try to do as much as we possibly can prior to closing the deal.

In terms of business development and how we deploy capital, clearly, I'll call it bolt-on type of activities where it makes sense, we'll continue to do. For example, in Q4 of last year, we did Medivation with the Dimebon product program. And then we did Auxilium, about \$300 million, give or take, that we used. And then I mentioned the three that we did this past quarter, Q1, in addition to Wyeth. So, I think you can expect us to continue to do that. In terms of paying down debt and then all the various other areas I looked at, they're all areas of importance and well do what we always do which is try to deploy capital in a way that we believe is best from a total shareholder return perspective.

Barbara Ryan - Deutsche Bank - Analyst

May 19, 2009 / 07:15PM GMT, PFE - Pfizer at Deutsche Bank Healthcare Conference

Thank you. One also just coming out of the healthcare reform. Obviously, there's a great deal of pressure to push for biogenics. Merck has been quite vocal about this being a significant opportunity for them, whether it's biobetters or biosimilars. I think everybody acknowledges that there's still a lot of FDA hurdles and that these are not going to be substitutable. There's high barriers to entry. But given your acquisition of Wyeth and where you are now with biologics, can you comment at all as to how Pfizer is looking at that opportunity on a five year basis?

Frank D'Amelio - Pfizer - CFO

I think -- maybe let me just run a few numbers and then I'll answer the question. If you look at Wyeth, one of the things, clearly one of the attributes that they bring to the combined Company is their large molecule BioTherapeutics business. With their Enbrel product in particular and the amount of sales that that brings along. From our perspective, from my perspective, this is clearly an area of expertise for Wyeth. So, we view from a biosimilars perspective which is what I call it, I think, one, we're supportive and two, we believe this represents a potential area of opportunity for us based on the expertise that Wyeth does have in this area and not only expertise but the capabilities that they have in this area, whether it's manufacturing capabilities, research capabilities, development capabilities. We think this is clearly an area of opportunity for us on a going forward basis. So, we're supportive and clearly we view this as an area of opportunity now, given the attributes that Wyeth's offering to us in the new Company, in the combination.

Barbara Ryan - Deutsche Bank - Analyst

I think you said that the acquisition of Wyeth has allowed you to avoid what you planned to be a \$1 billion potential investment in manufacturing capability and expertise in biologics. Is that correct?

Frank D'Amelio - Pfizer - CFO

Clearly we had our own internal plans relative to what we wanted to do from a BioTherapeutics perspective including manufacturing capabilities. Clearly Wyeth gives us those assets and those capabilities so that we don't have to do some of what we were planning to do ourselves organically. Does that answer your question?

Barbara Ryan - Deutsche Bank - Analyst

Yes. I want to open it up to the audience for questions. We have one here in the front.

Unidentified Audience Member

I have two questions regarding -- one is R&D and the other is balance sheet. The balance sheet question is putting aside where interest rates have been, if you combine with Wyeth, you have a smoother revenue profile. So, that could argue for a more levered balance sheet than what you had before with your patent issues. So, I ask the question, how do you think about that? Secondly, with regards to R&D, you're taking two companies and trying to maximize what they should get from their R&D people and budgets for what they had as a Company separately and you're combining the two efforts together. How do you think about how you spend the money, especially with the framework that there might be more value oriented pressures from healthcare regulation going forward?

Frank D'Amelio - Pfizer - CFO

Let me hit the balance sheet question first which is, I remember a year or so ago, I would get up in front of groups like this and I'd get asked, "Frank, you guys have that triple-A credit rating. Would you all be willing to leverage up the balance sheet to do a large deal?" That was one of the questions that the Company would get asked and I'd get asked. I think we now know the answer to that question which is, "Yes, we were willing to do that." In terms of the capital structure of the Company, what I've said in my 2012 targets was we were targeting net cash. We didn't say how much debt. We didn't say how much cash, just net cash.

Quite frankly, that's intentional. I'm not going to handcuff myself relative to what we want to do, what we don't want to do. But I do want to run some numbers again, which is at deal close we'll have about \$50 billion of debt. Let me make sure I say that again. At deal close, we'll have about \$50 billion of debt. It is a big number. Now, as you can imagine, we are laddering that in year by year, looking at maturities. If you look to what

May 19, 2009 / 07:15PM GMT, PFE - Pfizer at Deutsche Bank Healthcare Conference

we did in the U.S. and you can almost see on a plot how we plotted the years and why we did a six year raise, re, instead of a five year raise. But the way I always kind of get back, where I always get back to on these kinds of questions is we'll always do what we think is right in terms of creating total shareholder return.

When all is said and done, at a macro level, this is a capital deployment question. If you're asking me about how we want to deploy capital, given the choices that we have in how to deploy capital, my reaction is, one, I'm very cognizant of the debt level. Barbara asked me about debt and so we've got that \$50 billion. But, two, we always do everything, and we try to as best we can and we'll make mistakes on some of this, but relative to what's the best way to deploy capital and what's the best way to generate returns on net capital, that's how I think about it.

I could spend the rest of the meeting by the way just telling you some of the things we do now on capital allocation. But I want to spend a couple of minutes because it's an area where Jeff, myself, we've been very personally involved. Some blocking and tackling things like when we do a plan now, so when we do our 2010 plan and we start working that in the summer and then you work your way -- get that done before the calendar year comes, we do not only an income statement plan now but we have CapEx as part of the plan, balance sheets as part of the plan, cash flow as part of the plan, so that we're working the entire financial picture of the Company.

That wasn't done previously. If you mention any major element of capital, receivables, inventory, payables, CapEx, if you mention any major area where we're deploying capital, every number for us is large, right? Receivables are \$10 billion, inventory's \$4.5 billion, CapEx last year was \$1.7 billion. Every one of those we have -- I'll call it project teams on now. I call them work streams that are part of an overall initiative that I lead where we're just pounding away on basically making that capital more efficient and improving the velocities and doing things that are freeing up more and more capital. We started that in 2008, this is the second year we're doing that and it's not glamorous work, but it's grunt work and it generates, quite frankly, frees up lots and lots of cash flow. In a Company like Pfizer, every little thing has a big effect.

So, from my perspective, that's another area where we've improved. When we evaluate anything today, we have different cost of capital depending on the opportunity. So, we start out with the total Company cost of capital and then we -- I call it we plus-minus it depending on what we're looking at. So, for example, today, I looked at a couple of projects. One had a cost of capital that was much higher than our cost of capital. One had a cost of capital that was lower than the Company's overall cost of capital and directionally, that's exactly the way they should've been.

When we buy a Company today, if we buy a Medivation, we literally try to have an operational leader who's responsible for the milestones that we basically approved that transaction upon. I like to say we tattoo, either milestones or numbers on someone's forehead and literally that person's accountable for delivering that over the next couple of years. The earlier it is, the more difficult it is. You're not dealing with financial statements and deliverables, but they're still operational milestones that we hold people accountable to.

So, I could spend the rest of the meeting just talking about the things we've done on capital allocation. But hopefully I'm giving you the impression here. We're all over this and once again, we try to always do it from a total shareholder return perspective. We won't always get it right, but hopefully we'll get it right a whole lot more than we don't.

On R&D, let me talk a little bit about how I think about R&D and see if this answer your question. So, if you look at the combined companies last year, for R&D we spent about \$11 billion. At Pfizer R&D last year was give or take about \$7.5 billion and Wyeth's R&D was about \$3.3 billion. \$7.6 billion and \$3.3 billion, \$10.9 billion which round to about \$11 billion.

So, clearly, we're looking at what is the R&D spend going to be in the new Company. I can tell you directionally, it will be less. We're working on that right now as we speak. We haven't said how much less and quite frankly we're still working our way through all that as part of the integration planning. I think if you look at what we've done to make the R&D more productive, to have the R&D create more value, I think there's many things that we've done. Let me maybe touch on a couple of those and see if that answers your question.

I think first we've tried to put therapeutic areas in a single location. If I had maps of how we used to be organized logistically a couple years ago, you could've had a therapeutic area that was in four, five locations with multiple handoffs constantly where now we try to really get a therapeutic area into a location like oncology in La Hoya, California for example so that you're creating, I'll call it almost a local culture there in that location relative to the R&D.

If you think about philosophically what we try to do, I think at a minimum we try to do now three things. One is keep the groups, the therapeutic areas, the research units that I alluded to in my charts, small. 100, 150 scientists that are led by a Chief Scientific Officer who resides there locally with those folks, who's really making the calls on the program in terms of, "Do you go right? Do you go left? Do you call an audible?" But basically a local leader that's really got autonomy in terms of driving that program and also allowing them to keep their culture. If you look at some of the things we did in the last couple years with some of our acquisition, the small CovX and Coley, we've really left those companies to

May 19, 2009 / 07:15PM GMT, PFE - Pfizer at Deutsche Bank Healthcare Conference

be smaller companies and the philosophy that we have is we want the best of big or the power of big with the speed of small. That's philosophically how we think about it.

I think the other thing I mentioned and maybe I should spend a minute or two on this because to me it's important, this business unit structure that we've moved to and I grew up in a world where we always had business units. In telecom, everything was always organized, wireline, wireless, services, and you take wireline and blow it out between optical and access and switching and IT. I grew up in a world of business units. But one of the things that we did that I think I want to just punctuate is we moved development dollars from proof of concept on into the business units. By the way, you understand that's a big chunk of the overall R&D spent, because that's where the Phase III trials are, where there's big money. You've got general managers that are presidents of units that are making decisions on whether or not to advance those programs knowing that when they advance those programs and make that commitment, that's typically a multiyear commitment for a lot of money that's going to impact their income statement.

I think one of the interesting things to this is -- I forget. A couple weeks ago, not that this is a good thing by the way, but we stopped two Phase III programs in our primary care unit. I want to be clear. It's not like I want to be stopping Phase III programs all the time. But the unit, the President of that unit, the leadership team decided that they had better ways, better opportunities to get a better return on the capital that they would've needed to advance those programs. So, they chose not to. Quite frankly, that's exactly the kind of behavior that we want. So, to me, that's one of the things that I think really does drive home the point that this business unit structure and the behavior that we want is taking place.

And then one last thing and I'll stop which in this area I always get asked about, "Frank, you're a really big Company. Every line item is really big. So, for example, your R&D is really big. Are you going to reduce it? It's still going to be really big." My answer to that is we're trying to make it small. It's not like we're spending one amount of R&D in one functional organization. That R&D is being spent, a big chunk of it is being spent in those individual business units. Other pieces are being spent in the research organization. But we're trying to take a big Company and really make it small and get the benefits of small with the benefits of big. That's what the model is all about. You're welcome.

Barbara Ryan - Deutsche Bank - Analyst

Does anybody else have any? Go ahead. We have 13 seconds.

Unidentified Audience Member

Were you surprised at all with regards to the news about the additional states joining the investigation into Wyeth's practices with regards to --

Frank D'Amelio - Pfizer - CFO

Protonix?

Unidentified Audience Member

Protonix. Yes.

Frank D'Amelio - Pfizer - CFO

I guess this is -- is this my last question, Barbara? We're running out of time? So, I'll be quick. No. Let me embellish a little bit. I'm just having a little fun. I'm sorry. So, one, in terms of any detailed questions, you obviously would need to refer them to Wyeth because we're still two separate companies, right? But, two, in terms of just Protonix, that's something that Wyeth's been disclosing publically for years. If you read their 10Qs, if you read their 10K and obviously we read all that as part of our process. It's spelled out there, I think, pretty clearly. So, going into diligence, I never get into what we did or what we didn't do in diligence, but going into diligence, this was clearly something that was on our radar screen. I think the most important thing I should say to this item and then we'll wrap is that based on all the current information that we have, we still believe that we will close the deal end of Q3, Q4 which is probably part of the question you're asking me. Okay, Barbara?

Barbara Ryan - Deutsche Bank - Analyst

May 19, 2009 / 07:15PM GMT, PFE - Pfizer at Deutsche Bank Healthcare Conference

Thank you, Frank.

Frank D'Amelio - Pfizer - CFO

Thank you all for your time and interest, everybody. We very much appreciate it. Barbara Ryan:

Barbara Ryan - Deutsche Bank - Analyst

Thank you, everyone, thank you, Frank.

DISCLAIMER

Thomson Financial reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON FINANCIAL OR THE APPLICABLE COMPANY OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

© 2005, Thomson StreetEvents All Rights Reserved.