

FINAL TRANSCRIPT

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PFE - Pfizer at Citi Global Healthcare Conference

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Citi - Analyst

PRESENTATION

John Boris - *Citi - Analyst*

Next presentation will be from Pfizer. We have Jean-Michel Halfon, who is President and General Manager of the Emerging Markets Business Unit. Prior to assuming his role, he served as the area President of Canada, Latin America, Africa, Middle East Pharmaceutical Operations, a position he held since January of '07. A 30-year-plus veteran of Pfizer, which -- in various capacities. So I'll turn the podium over to Jean-Michel.

Jean-Michel Halfon - *Pfizer Inc. - President and General Manager, Emerging Markets Business Unit*

Thank you. Thank you very much. Thank you very much, John. So I will briefly take a few minutes and then have your questions.

These are the cautious information.

No doubt that emerging market is a strong growth driver. Between two thousand -- in the next five years, \$140 billion of growth in the pharmaceutical market. 75% of the growth comes from BRICMT. We call it BRICMT -- Brazil, Russia, India, China, Mexico, Turkey.

China -- a critical source of growth. Our growth last year was, as you know, 8%. The first-quarter, Pfizer legacy was 6%. When you add Wyeth, on which we devoted most of our energy last year, it was 46%. Our market share, approximately we believe, is around 4.5%.

So if you take the market as it is today, from \$200 billion, to \$340 billion in the next five years, this means that the potential growth at unchanged market share is about \$6 billion to \$7 billion. If you add an expectation of market share growth, let's say of 1%, you are probably at \$10 billion of growth in five years.

So do we plan to increase our market share over the next five years? Absolutely. This is what we project to do. We believe we have the capacity and the capability to do it. We believe that we have very strong capabilities in a number of markets in emerging markets. We are leading the market for example in China, but we also have very strong capability in other BRICMT markets.

We have identified 10 -- on top of these six markets, we have identified 10 markets that we call accelerated growth markets where we believe that we have another opportunity of growth beyond the BRICMT market. So here you have how we split our growth over the next five years around these markets.

But all we also believe we have strong -- the strong brands to increase our growth. So a major source of growth will be Prevenar, Enbrel. On these -- these brands represent \$3.4 billion of gross over the next five years, and 14 -- with an average 14%, and just if you take these brands in the BRICMT market, you have a growth of 16% over the next five years.

So both in terms of capabilities, field force, project development, development of access in these markets in terms of leadership that we have in these markets, on which we have taken a number of decisions recently, and in terms of quality of the brand,



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we believe that we have the capability to grow our market share from the 4.5% and beyond this 4.5% of growth through organic growth and inorganic growth.

One key source of growth is obviously China. On this chart you have the rank of China we have today and we believe we will have over the horizon. But you have also the role that China will play in the pharmaceutical market today and in the next five years.

China is very interesting because you may remember that we announced a plan on China -- we call it the Asia strategy of Pfizer -- in March 2008. And this plan was built on a few pillars. One pillar was certainly the geographic expansion, the increase in the number of cities where we are present in China. And you have that in the lower part -- lower right part of this chart. The second pillar was the increase in the field force. The third pillar was our cardiovascular strategy in China. And the fourth key pillar was in 2008 the oncology strategy in China.

And today, two years later, you can see on the left side, we believe that we are exceeding the accomplishments of the strategy and -- but on top of that, we have now several other area of growth. One of them is Prevenar. I would say one of them is the implication of the Wyeth acquisition, with Prevenar playing a strong driver, but not only Prevenar. The second one being our established product strategy in China with business development components of that strategy.

So when you add this, you have a new set of drivers of growth in China. And beyond that, we have a business model in China which is built upon alignments and partnership with -- and leveraged healthcare reform in China. But so for example, we have a number of partnerships with -- in the area of patient education and patient awareness in China on the cardiovascular field and in the smoking cessation field. This is a very important. These partnerships are essential to drive our growth in China, on top of the growth of the field of force, for the creation of the six business units in China and the development of a retail field force in China, which supplements our GP -- our physician field force to ensure that we can properly grow.

The growth in China of the market is about 30% today. Pfizer is leading the market and is also growing above the speed of the market in China, and with the plan we have, we believe that we will continue to grow above the speed of the market.

China is very interesting because China is also a story for the rest of BRICMT, and at Pfizer we use the experience that we have in -- and the success that we have in China to build our growth in Brazil, in Turkey, in other BRICMT markets.

So key driver of growth is China. Key driver of growth is also Prevenar. So if I take the example of Prevenar, Prevenar is the first source of growth in emerging markets. Prevenar 13 has now been approved in many markets in the emerging markets, in more than 20 markets, approved in India and Turkey.

This year will be filing for Prevenar adult, which will be the vaccine of choice, or the first vaccine approved in the prevention of pneumococcal disease for adults. And Prevenar 13 will build on the science of Prevnar and with the safety and efficacy and reliability of supply, but will also bring the serotype 19A, which is absolutely critical on top of Prevnar 7 because it's a healthcare issue for which there are a number of resistance to antibiotics. So this Prevenar 13 [pediatric] brings that strength. We have developed a number of partnerships in a number of countries, 45 countries, mostly in emerging markets, which brings to the growth of Prevenar next year and beyond.

And the last point I would like to comment is on pricing -- on our pricing -- before we go to the questions -- is on our pricing strategy in emerging markets. So our pricing strategy -- I don't want to disappoint you here because I don't decide the pricing strategy in my office in New York, and I don't decide the increase or the decrease, and I don't know that just by decreasing by 20% I will increase by [at least] 40% in certain key markets.

The pricing strategy is -- we give empowerment to our country organization. We give empowerment and flexibility to our country organization to try to leverage their P&L, and this is where we work very closely with our country organizations, where



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they leverage their P&L at top line and bottom line, and at the same time make sure that we ensure access to our products. So that's the fundamental way we approach it. We don't have one, single solution for all markets.

And so I can give you a few examples of that. One example is certainly for example Lyrica, where our price across emerging markets is about 55% below the price in the developed world. I can give you example of Lipitor or example of Sutent.

That's -- but if you look at the price, country by country, there are some differences. And there are some differences because there are differences of market forces, differences in market needs, country by country. Certainly another example of price is purely done for access. This is what we've done on [Refabroutine] through a partnership with the [Pilton] Foundation. But I would say this is a specific case.

So we try to empower our organization and at the same time maximize our growth, and pricing is a very important aspect of that, because we said, in the emerging markets if we want to reach patients we haven't reached before, that's a question of access that we want to consider.

So this is just a few considerations I wanted to share with you. Bottom line -- emerging markets are strong growth driver for Pfizer -- emerging markets and established products. And we said that several times, so we have our investment of being driven toward that goal. We increased our investments in the market, as I have described before, the BRICMT.

The AGM -- I have not given an example of AGM. I can give you Poland, for example; of the Middle East, Saudi -- which are growing faster in emerging markets. And that's the fundamental of our strategy of growth. We -- as we manage the revenues, the revenue side, we strictly manage the bottom line and try to reinvest in emerging markets part of what we can save from our costs when we optimize our costs.

That's what I can share at the very beginning, and I'm open to questions.

QUESTIONS AND ANSWERS

John Boris - Citi - Analyst

Let me maybe kick it off with an initial question. You certainly highlighted Prevenar as a very important growth opportunity going forward -- just a phenomenal vaccine in terms of the way it works, has competitive advantages over a product like GSK's Synflorix. When you go into emerging markets, whether it's Brazil or it's China, which are very important in terms of population size, and you're competing against companies that have a full suite of vaccines, relative to you having a product offering, some have taken a strategy of a lower cost, higher volume strategy. How do you compete against that?

Jean-Michel Halfon - Pfizer Inc. - President and General Manager, Emerging Markets Business Unit

We compete on the science of the product, and this is why I emphasized the point of serotype 19A. So we compete on science, we compete on the efficacy of the product, we compete on the experience of Prevnar 7 before even Prevnar 13.

We compete also on the work -- on the partnership that we can build with customers. And I mentioned that we have 45 national immunization programs. (technical difficulty) national immunization program is being discussed (technical difficulty) with (technical difficulty) [governments] and is being -- it includes some form of services, [available] supply, specific studies so that we can serve our customers in the best possible way -- science and services.



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John Boris - Citi - Analyst

If you look at the Brazilian market as an example, one of your competitors signed a long-term deal there. Is it still easy to get into that market with a product like Prevenar?

Jean-Michel Halfon - Pfizer Inc. - President and General Manager, Emerging Markets Business Unit

Yes. In the case of Brazil, it's a case where the competitor has signed a partnership with the government. I think they have a few. We have many. So this is a competition, and in this competition I think we are quite successful today. But some of these partnerships are a long-term partnership, and of course we -- when we interact with our customers -- and this is what we've done in these 45 partnerships that we have signed -- we are dedicated to serve the customer on a long-term basis. That's absolutely critical.

But we are in -- we compete, and in the case of Saudi, in the case of -- recently in the case of Morocco, in other cases, we are -- we have been very [effective].

John Boris - Citi - Analyst

In the case of operating margin contribution to overall corporate Pfizer in markets that are quite frequently -- foreign exchange can be very hyperinflationary, as in Latin America, or in the case of other emerging markets where pricing can be certainly extremely variable on the pricing of your products, how do you plan for that? When you put together your plan, it must be extremely complex when you are dealing as many markets as you are.

Jean-Michel Halfon - Pfizer Inc. - President and General Manager, Emerging Markets Business Unit

Okay. [As I just] said, we are in the -- between the low 30s and the top -- between -- and the 40s in terms of operation margin. Emerging markets contribute to that growth. Then we can kind of meet that emerging markets or countries like Brazil, like China or Mexico or are not -- or Turkey -- have much lower margins. I think it is a myth. I think it is a myth, and we have opportunities to strongly contribute to the growth of our operating margin and to do it in an accelerated way.

And the plan that we have at emerging markets is dedicated to that achievement through investment -- commercial investment (inaudible) [for], investment in infrastructure, investment in quality, investments in access, and of course your previous question about Prevenar, but at the same time, growth of operating margins. And we are dedicated to that.

John Boris - Citi - Analyst

There is a rebalancing of some of the manufacturing within Pfizer that's going on. Are you appropriately scaled in those markets to be able to produce enough product in the adequate volumes that are needed locally, especially with packaging being different and all of that?

Jean-Michel Halfon - Pfizer Inc. - President and General Manager, Emerging Markets Business Unit

We work very closely with manufacturing. Manufacturing -- of course we have a market manufacturing organization at Pfizer. That manufacturing is part of the leadership team of emerging markets. And we optimize the manufacturing network so that we can have the best possible cost, and at the same time of course we (technical difficulty) while to reduce our cost, manufacturing cost, the (technical difficulty) manufacturing costs in commercial infrastructure.



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John Boris - Citi - Analyst

Questions from the audience?

Unidentified Audience Member

If I can do a follow-up just on what you just said about manufacturing, is that -- when you talk about manufacturing and optimizing it for these emerging markets, are you talking about mostly packaging, filling, or are you going like pretty far back in the supply chain to optimize these margins that you're talking about? Can you comment on that?

Jean-Michel Halfon - Pfizer Inc. - President and General Manager, Emerging Markets Business Unit

Yes. We talked about the integrated manufacturing. We talked about the integrated manufacturing. We talked about manufacturing from procurement of the bird flu packaging through the chemical process, through the buyer process and to the delivery [expectation]. We talked about the (technical difficulty) [food] process to the delivering of the product and the supply chain to pharmacies, then patients. And we do that because at Pfizer we have this integration of responsibility within our manufacturing (technical difficulty)

Unidentified Audience Member

I didn't quite understand your answer. In other words, you're making the product from scratch in some of these countries? Or you are just filling in these countries? For instance, Prevnar. Is Prevnar made in two or three plants and then distributed to all these countries? Or is it made locally in the countries?

Jean-Michel Halfon - Pfizer Inc. - President and General Manager, Emerging Markets Business Unit

No, no. No, each product -- and as the case of Prevnar -- is made globally of course, but for -- and is made globally according to a global optimization of the manufacturing process. However, in emerging markets there are a number of manufacturing capabilities, and for example in Turkey they are.

And work needs to be done with manufacturing, either to reduce the cost, and the cost is particularly important for established products for example. Establish products represent approximately 45% to 50% of our sales in emerging markets.

So critical of these products is to make sure that we can compete successfully, and to compete successfully we were work hand-in-hand with manufacturing to optimize the network and to optimize the process.

Unidentified Audience Member

(inaudible - microphone inaccessible) which ones are the two I guess behind China, Russia, India, Brazil? And on the other 10, which are the bigger ones there?

Jean-Michel Halfon - Pfizer Inc. - President and General Manager, Emerging Markets Business Unit

So to the list you have given I would add Mexico and Turkey. Turkey is a market where Pfizer is in the top five. Very strong. Very strong leadership, very strong capability. We compete very strongly in this market. It's a market which has been affected last year by a price decrease, but I believe that on a five-year basis, Turkey is a growing engine for Pfizer.



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And the second is Mexico, where Pfizer is number one in Mexico for these statistics -- number one, number two. And it's also there -- it's a difficult market though to the US, which has been impacted by 8%, 9% GDP growth last year, which had an impact on the business, but it's rebounding at the moment.

Beyond these six markets, we have identified 10 markets, markets like Poland, Saudi, Indonesia, Chile, even Ukraine -- which will play a role, a growing role where we'll invest selectively.

Unidentified Audience Member

(Inaudible question - microphone inaccessible)

Jean-Michel Halfon - Pfizer Inc. - President and General Manager, Emerging Markets Business Unit

The situation is that the government has made a decision last year to -- at the end of last year to decrease price. The price decrease has been variable, company by company. We have been affected. We have been very integrally affected. And -- but beyond that, it (technical difficulty) won't happen every year, except that it's not impossible that the impact on Europe at the moment and on Greece, and (technical difficulty) may have an impact on Turkey, but this is really very far-fetched at the moment. I would say that Turkey is a very strong engine of growth. Very strong. Because the economy is very strong.

Unidentified Audience Member

(Inaudible - microphone inaccessible) the countries because of, one, competition; and not being able to get its effects on margin?

Jean-Michel Halfon - Pfizer Inc. - President and General Manager, Emerging Markets Business Unit

Sorry, I didn't get your question.

Unidentified Audience Member

Are you pulling out of any countries or regions because of the fact that there pricing is just so unfavorable that you can't get a good margin or the competition is too successful?

Jean-Michel Halfon - Pfizer Inc. - President and General Manager, Emerging Markets Business Unit

No. I think no. No, I think that Pfizer responsibility is to be present in every country, and I think that we have the strength, the capability, the quality of the (technical difficulty) [products]. You take -- the opportunity is very good. For example, we can take even -- we can discuss [about] (technical difficulty) [ABC] market, lowest development countries.

We can take their -- if you take the [IMF], which is probably the last thing you should do, but if you take the IMF, one is the size of the market is equal to zero, and the growth of the market in the next five years is also [close] to zero. So you say, okay, let's pull out of the market. In reality, we can be very creative and play a responsibility role in these markets. So the answer is no, we [have] (technical difficulty)

John Boris - Citi - Analyst

Just one last question, if I may -- we have a minute or two. Obviously there is an extremely heavy amount of competition from your peers in this area. You certainly feel you're ideally positioned within the area you -- this is an area that has received a lot



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of attention from your senior executive management. It's also received a lot of attention on the business development front with a lot of in-licensing of injectable oncology products and a whole host of others. What are the key things that you need to be able to beat your competition within this market, the key elements?

Jean-Michel Halfon - Pfizer Inc. - President and General Manager, Emerging Markets Business Unit

I think the key thing is, one, we have 4.5% market share. We are number three on these market, and so we can all increase (technical difficulty) on market share (technical difficulty), at least at the level of the companies you have mentioned. So I don't see Pfizer to increase market share by decreased market share of any of the competitors, like the competitors you see in the market -- number one.

Number two, is organic -- inorganic growth an important part of our strategy? Absolutely.

Number three, what do we need? I think we need to have the right priorities and execute well.

John Boris - Citi - Analyst

Thanks a lot for your time. Appreciate it.

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