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PRESENTATION

Jami Rubin - *Goldman Sachs - Analyst*

The mic's on so that means it's time to begin. Good morning everybody. My name is Jami Rubin and I'm very pleased to kick off the morning with Frank D'Amelio, the CFO of Pfizer. Frank has been in this role for quite some time and has really been part of a team that has created -- has really been the architect, he and Ian Read have been the architect of tremendous value creation over the last five to six years, and it's been just so much fun to watch and to observe.

Frank D'Amelio - *Pfizer Inc. - EVP, Business Operations, CFO*

Thank you.

Jami Rubin - *Goldman Sachs - Analyst*

And so again thank you very much for being here. I thought before we focus on the future, I wanted Frank to spend a couple of minutes providing a little bit more color on the white elephant in the room here, which is AstraZeneca. A, why did it happen? B, why didn't it happen? And C, what was the mindset of the Company to make the decision to go big when you've actually gone smaller? And if you could just provide a little bit of perspective.

And then I will say that we can't discuss what's going to happen next with respect to AZ or that sort of thing, but I thought it would be important for you to spend a little bit of time providing a little bit more color.

Frank D'Amelio - *Pfizer Inc. - EVP, Business Operations, CFO*

Sure. Thanks. And just before I start, I may make some forward-looking comments today. And if I do, actual results may vary from those comments. I need to say that just so you all know. Okay.

Jami Rubin - *Goldman Sachs - Analyst*

And also our disclosures are in the back of the room.

Frank D'Amelio - *Pfizer Inc. - EVP, Business Operations, CFO*

Okay. So on AstraZeneca in terms of, Frank, why, and hopefully I'll make these comments and we can start talking more about Pfizer, but relative to AstraZeneca, the why in my mind was, in a sentence, it was to make a strong hand. We believe we have a strong hand to play, to make what is a strong hand stronger at a macro level. It's to make what we believe is a strong hand stronger.

I'll give a little subledger detail on this. From our perspective there was really three fits relative to AstraZeneca. There was a strategic fit, there was an operational fit, and there was a financial fit.



The strategic fit really involved their portfolio combined with our portfolio we felt would, several elements of it, one plus one could be more than two. So you know, putting them together the sum of the parts was greater than, you know.

From a financial -- from an operational fit, we could take their company and we thought very efficiently integrated it to our Company based on how we're organized and how their assets would fit.

And then the third one was the financial fit. It was really a lot to do with taxes and the ability to be in a tax environment with a lower statutory tax rate and a territorial tax system and some of the other benefits of the UK tax code. So that's kind of the why.

In terms of why not, why didn't it happen, I think in a word it was price. And I think any other items that -- or any other issues that were raised during the negotiations, during the conversations, I think we were able to adequately effectively address those. I think when all was said and done, the reason the deal didn't get done was because of price.

And we have been, hopefully we've demonstrated this, we'll continue to be disciplined acquirers when we are -- and you know, we had a price and quite frankly we had a ceiling and we weren't going to go above it. And so I think in a word if you ask me why the deal didn't get done, the deal didn't get done because of price.

And then last part of your question in terms of our thinking --

Jami Rubin - *Goldman Sachs - Analyst*

The Company's mindset.

Frank D'Amelio - *Pfizer Inc. - EVP, Business Operations, CFO*

Yeah. So I think -- the way I'll answer this, Jami, is if I had to give a headline on this, our mindset is we're agnostic to size, and that's how I think about it. If you look at what we've done over the last couple years to unlock trapped value, we sold the Capsugel business, we sold the nutrition business, we separated the Zoetis business, all of which I thought were very good transactions. And by the way, in so doing we got smaller. But I want to be clear. The objective wasn't to get smaller. The objective was to create shareholder value, to unlock trapped value. And in so doing we got smaller.

We're agnostic to size. So what does that mean? If we think there's an opportunity to create shareholder value by getting bigger, then we'll do that. If we think there's an opportunity to unlock fair value, to create shareholder value by getting smaller, then we'll do that. Size isn't what drives our decision-making. Our compass has been and will continue to be how do we create, how do we generate incremental shareholder value?

That's what really drives our decision-making, including business development. It's really no more complicated than that. But I like to use the term our compass, what guides us, what can we do to continue to create shareholder value?

Jami Rubin - *Goldman Sachs - Analyst*

And just if you could clarify very briefly the UK takeover rules with respect to Pfizer revisiting potentially another AstraZeneca bid?

Frank D'Amelio - *Pfizer Inc. - EVP, Business Operations, CFO*

Sure. So one of the interesting things is during this period we were in, I learned a lot about UK takeover rules, and quite frankly they're an interesting set of rules. In terms of timelines, which is what you're asking me about, there's really a couple of timelines. Let me go through each of them.

So first, after 90 days from the date that we formally ended the conversations, which was Memorial Day Monday, so whatever that date was.

Jami Rubin - *Goldman Sachs - Analyst*

May 26.

Frank D'Amelio - *Pfizer Inc. - EVP, Business Operations, CFO*

May 26. So, and feel free to help me all along. So after 90 days, AstraZeneca can approach us. Not that they will, but they can approach us. After 180 days from that date, we are able to approach AstraZeneca. Not that we will, but we are allowed to approach AstraZeneca 6 months, 180 days from that date.

And just so you all know, under UK takeover panel rules, I cannot comment or speculate on anything about the future in terms of whether or not we would reengage with AstraZeneca or whether or not they would reengage with us, which I know you mentioned.

Jami Rubin - *Goldman Sachs - Analyst*

Right. So I want to focus now on the Pfizer as a standalone and how investors should think about the story going forward. So I think one of the risks in going public with a deal of this size is that you leave the impression that you're not happy with what you have. And clearly I think just based on where the stock is trading today relative to where it was a few months ago, investors are looking for reasons to get excited about the story.

So what do you think is going to generate shareholder excitement in the story as a standalone in the absence of a large transformative transaction?

Frank D'Amelio - *Pfizer Inc. - EVP, Business Operations, CFO*

Sure. So I think I should start with continued progress with our pipeline, and I think most notably palbociclib, which is an ER-positive, HER2-negative, late-stage asset for breast cancer. In addition to that, we think there's potential for that to be also an earlier-stage opportunity regarding breast cancer and other cancers. So I think it'd start with and most notably palbociclib.

In terms of the rest of the pipeline because I said let's start with the pipeline, Prevnar 13 Adult, bococizumab, our immuno-oncology portfolio although that's earlier stage, biosimilars, the additional opportunities/indications for Xeljanz, vaccine opportunities regarding mening-b and Staph aureus. So you know when you look at our pipeline, much of that is late stage. I think we've done a nice job of improving the pipeline, creating a much more robust pipeline.

So clearly one element of the excitement is our pipeline, and I think in particular, at least right now, palbociclib seems to be the one that has a lot of attention.

I think in addition to that continuing with kind of the revenue ramp up of our new products. So things like Eliquis, Xeljanz, Xalkori, Inlyta, but continuing our ramp up of revenue on the new products is another area where we need to demonstrate progress to the investment community and hopefully that will continue to generate excitement.

Continuing to manage our cost and expense structure is a given. I think our shareholder-friendly capital allocation activities. Hopefully everybody sees that in terms of the actions we've been taking on our dividend, the actions we've been taking regarding share repurchases.

So I think you should expect us to continue to get the importance of that to our investment thesis, our value proposition, and then quite frankly, good prudent business development. We're always looking. The business development side of the Company reports to me. We're always looking at opportunities to strengthen our hand.



But I want to make sure I mention what I mentioned before in terms of Frank, this kind of a big potential transaction goes public, from our perspective we like our hand. We have a strong hand, we want to play our strong hand. We viewed this as an opportunity to make what was a strong hand stronger. And so we're back to our hand, we like our hand, we're going to play our hand.

Jami Rubin - *Goldman Sachs - Analyst*

How committed are you to the breakup as you've described it with your three separate companies? Or a getting smaller scenario? Or should we be thinking about the Pfizer narrative differently now, now that you've shown your hand and your hand is -- will do a \$100 billion deal if that's what it takes to unlock value? So how just do we think about the structure of this Company or the narrative of Pfizer going forward?

Frank D'Amelio - *Pfizer Inc. - EVP, Business Operations, CFO*

Okay. And it was almost \$120 billion just to --

Jami Rubin - *Goldman Sachs - Analyst*

Right.

Frank D'Amelio - *Pfizer Inc. - EVP, Business Operations, CFO*

So I think first and foremost what I should say here is, and hopefully this is not surprising anyone, we've made no decisions regarding whether or not we're going to split up the Company. So just make sure I say that again. No decisions have been made, point one.

Point two. If you look at last quarter's results or our Q1 results, and you actually asked me a question on this on the earnings call, we are now disclosing income statement information for the new businesses. Hopefully you all saw that. We're providing kind of a contribution income statement and then we give some allocation. I can go into this in more detail if you want me to. So we're doing that.

What else are we doing? We're doing -- we've launched all of the effort that's required to get the work done, that's a massive amount of work, to be in a position to have the option to change the construct of the Company in the future if we so choose to do so. So all of that work is being done.

And then in terms of Frank, how do you think about this, it's what I said before. The size is not how we think about it. We really think about it in terms of what can we do, what actions can we take that will continue to create value for our shareholders. And if that means getting smaller, we think there's an opportunity to unlock trapped value by doing things that would make the Company smaller. Hopefully we've demonstrated to you all we will do that. If we think there's opportunities to create value for our shareholders but in so doing we get bigger, we'll do that.

So the way -- if I had to answer it in a sentence, I think I said this before which is Ian, myself, we're agnostic to size. What drives us is what can we do to continue to create value for the owners of the Company?

Jami Rubin - *Goldman Sachs - Analyst*

Okay. And that's a good segue to my next question which is again, I have been very complementary of the work you and Ian have done. You've reduced your capital, you've reduced your expense base, you've reshaped the portfolio, you're creating optionality for a potential breakup. But how much more can you get -- I mean this is all essentially financial engineering. How much more can you get from financial engineering compared to sort of good old fashioned drug development, launching new products, i.e. drugs -- drug stock? I mean yours has been a story of financial engineering has moved Pfizer stock, it's not been drugs move drug stock. So at what point have you squeezed out as much as you can from all the financial stuff and at what point do you need to now switch gears to focus on top line?



Frank D'Amelio - Pfizer Inc. - EVP, Business Operations, CFO

Yeah. I got it. So a couple of comments on this. So let me just start with just we're going to continue to have headwinds on the top line for the next couple years, so just to kind of -- and why is that? The continuation of LOEs and co-promotion expirations. So this year we have, between LOEs and co-promotion expirations, we're dealing with about \$3 billion. Next year's going to be a couple billion and the year after a couple billion. So for the next couple of years we still have significant LOE and co-promotion expiration headwinds. So that's a give, right? I mean I can't do anything about that.

So what does that mean? At the beginning of the year we get to kind of 1-1-14, all other things being equal, revenue is down \$3 billion, right? I mean that's a given. We've been dealing with that for the last couple of years. When we start getting past 2016 and the rhythm of this changes in a good way, right?

Jami Rubin - Goldman Sachs - Analyst

So '15 and '16 no top line growth?

Frank D'Amelio - Pfizer Inc. - EVP, Business Operations, CFO

'15 and '16 we still -- we haven't provided guidance yet but we still have LOE headwinds.

Jami Rubin - Goldman Sachs - Analyst

Right, right.

Frank D'Amelio - Pfizer Inc. - EVP, Business Operations, CFO

And then if you say all right, Frank, so talk to me about what do we do here, let me run through revenue and then I'll run through some other items as well.

So within that framework, which is we've got these headwinds for this year and the next couple of years there's still lots of pockets of opportunities for growth in where we are growing. So let me run through those.

So first, once again, new products. Eliquis, Xeljanz, Xalkori, Inlyta, and then some other products that are just starting to click along. But we have to crank, we have to revenue, we have to ramp up our new product revenue. And I'm going to come back to Eliquis and Xeljanz after I go through some comments on this in terms of some of the progress we believe we're making and hopefully I'll demonstrate that with statistics.

Continuing to grow in emerging markets. Our emerging markets business now, we do well over \$10 billion a year in emerging markets. And we've been growing that. Last year we grew that in the mid-single digits. We've said this year again we're targeting mid-single digit growth. So we need to continue to grow in emerging markets.

Our inline portfolio, so really Enbrel outside the US and Canada. Lyrica, Viagra, in the US. Lyrica's been growing very nicely. And then Prevnar 13 Adult. So there's clearly lots of pockets of opportunities where the revenue numbers are going to grow. The problem is it's growing into a headwind that's called \$3 billion of LOEs.

If you remove LOEs, operationally there's been growth. But the conundrum is, like I've said, I start that year and I've got a hole, this year of \$3 billion, that I've got to dig out of. So that's point one.

So let's come back now to Eliquis and Xeljanz because I get asked lots of questions about those two products in various investor meetings. So on Eliquis, if you look at the last four weeks through May 16, so the last four weeks through May 16, new scripts grew 10%, total prescriptions grew 12%, and that's versus the prior four weeks. That growth, by the way, is faster than the growth of Pradaxa or Xarelto. If you look at what we believe is a critical leading indicator, which is new-to-brand share of cardiologists, through middle of May we're at 39%. 39%. If you compare that to Pradaxa, they're at like 14%. So we're significantly higher and we've dramatically closed the gap versus Xarelto which is 47%.

So we think Eliquis has a nice rhythm. This is a space where there's an incumbent kind of standard of care that's been there for a long time, there's other competitors there, but we are starting to make some really nice progress relative to the rhythm of that business, the rhythm of the sales.

Xeljanz. So if you look at Xeljanz, Xeljanz's been growing at what I'm going to call a measured rate. It's important to remember that rheumatoid arthritis, RA, it's kind of a slow growth market. But despite that, we're seeing greater adoption by physicians. So once again, why do I say that? If you look at the month of May, compare it to the month of April, new prescriptions are up 10%, total prescriptions are up 12%, and that's in an RA environment where overall scripts are essentially flat. So we think we're making good headway in Xeljanz as well.

Jami Rubin - *Goldman Sachs - Analyst*

Humira's still growing 15%.

Frank D'Amelio - *Pfizer Inc. - EVP, Business Operations, CFO*

No, but as an overall. As an overall. So when you look at it we think we're making pretty good headway there too.

And then if you say Frank, what else can we do? Well we're going to continue to manage our costs and expense structures. And once again, an example. Last year we spent \$14.2 billion on S&A. We gave guidance this year of \$13.5 billion to \$14.5 billion. If you were to take the midpoint of that guidance range, we'd be down a couple hundred million. Understand in that \$13.5 billion to \$14.5 billion we have significant incremental launch costs for our new products. And despite that, we're still able to demonstrate some reduction in our spending.

But the big, big multibillions that we were able to take out, that's not there anymore, right? I've said we've entered the late innings on cost and expense management. But the other thing to remember about this is your hand is never fixed. Every time you do a business development deal the hand changes and all of a sudden you were in late innings, now you could be in the middle innings or early innings again relative to what you can do on the cost and expense structure.

And then we'll continue -- like I said, we'll continue to be prudent with capital allocation. We'll continue to do the things that we think are shareholder friendly with dividends, with buybacks. We'll continue to advance our pipeline. I won't go through all the assets I mentioned before because that's all about future growth. But we get that we need to move the top line, it's just we had and we continue to have for the next couple of years significant headwinds.

But that said, if you look at what we've been doing despite that, we've been able to grow our earnings, we've been able to manage our cost structure, and our intent is going forward to be able to continue to deliver value to our shareholders.

Jami Rubin - *Goldman Sachs - Analyst*

But you also just said that the days of billions of dollars of S&A getting cut are probably behind us. How do you grow earnings during a period of flat revenues when you don't have much room left to go on the expense side?



Frank D'Amelio - Pfizer Inc. - EVP, Business Operations, CFO

Yeah. So I think there's a couple of ways, right? So one, we'll continue to manage cost and expenses. Two, in those pockets of revenue growth, we're going to have a whole lot of that to offset the LOE impact. So you're not dealing with a \$3 billion item, you're dealing with something dramatically smaller.

Share buybacks help our earnings. Continuing to manage our tax rate. All the things that we've been doing. When you put that puzzle together, when you put that together, that has been and will continue to allow us to hopefully create value on a going-forward basis.

Jami Rubin - Goldman Sachs - Analyst

Should we look at Pfizer as two separate businesses, innovation -- innovative and established products, or as three separate businesses as they were broken out? And why did you kind of change the script a little bit on that?

Frank D'Amelio - Pfizer Inc. - EVP, Business Operations, CFO

Yeah. So I guess a little bit of the confusion is we've got GIP, Global Innovative Pharmaceuticals; we've got VOC, Vaccines, Oncology, and Consumer; and then we've got GEP, Global Established Pharmaceuticals.

But if you say Frank, how many businesses do you have, which is the question you asked me, we really have two. There's an innovative business and there's an established products business. And then what we did is we took the innovative business and we broke it out a little bit further. We've broken it into two businesses, GIP and VOC. And so the question to ask is why'd you do that?

We did it really because if you look at vaccines, oncology, or consumer, one, they're relatively smaller businesses. Two, they have unique go-to-market strategies. And three, they have some kind of distinct cultures that we wanted to maintain.

If you think about unique go-to-market strategies, if you're the vaccines business, it's NIPS, it's dealing with governments. If it's consumer you're dealing with the big pharmacy companies. They have a go-to-market strategy that's quite unique from -- or I'll call it dealing with primary care physicians or specialists.

So we thought kind of breaking it out given the relative size of those businesses, how they go-to-market, given their cultures, we thought that that was a prudent thing to do. And that's why we did it. Obviously over time we'll determine if this was the right thing to do or not.

Jami Rubin - Goldman Sachs - Analyst

Do you meld those two innovative businesses back together?

Frank D'Amelio - Pfizer Inc. - EVP, Business Operations, CFO

No. I think the nice thing about -- one of the nice things about what we've done is, one of the things people will say to me Frank, when you try to manage a \$50 billion company, how do you manage it? And I say one of the things you try to do is it's like when you go to college initially, you go to a big school, you try to make something big small. And you can manage it in bites. You kind of create your circle.

In my mind by doing the multiple business units, it makes what's a \$50 billion business more manageable. It makes us more nimble, more focused. So no, I'm comfortable with how we've organized the Company.



Now the one thing I'll say is this. What do I know about every single org chart everywhere in the world? It's going to change. You look at any org chart of any company a couple of years ago and you look at it today, I guarantee something's changed. So by definition organizations will perpetually change. It's the only constant, is change.

But if you're asking me do I like the current structure we have, I do. And we just put it in place. We need to get some -- we need to ride this for a while and get some value creation from it.

Jami Rubin - *Goldman Sachs - Analyst*

Can I -- are there any questions from the audience? Okay. I want to keep on the topic of the three businesses. I think the market may have been a little bit confused about the true margins of the businesses. You just reported those three businesses, gave us a P&L breakdown. And I think again there was some confusion and there may have been extra expenses thrown in there.

Can you breakout the margins for us on those three -- and really more importantly, can you outline the improvement in each of those businesses over the next several years?

Frank D'Amelio - *Pfizer Inc. - EVP, Business Operations, CFO*

So let me start by saying I don't think there were, to kind of use your words, extra expenses or added expenses. But let me work through why I think that is.

Jami Rubin - *Goldman Sachs - Analyst*

But it was confusing.

Frank D'Amelio - *Pfizer Inc. - EVP, Business Operations, CFO*

Yeah. So let me see if -- because I know this was the question, this was one of the questions you asked me on the earnings call, so let me see if I can walk us through this and try to have it not be -- have it be much more clear, which is -- and by the way, if you look at our last earnings release, this is all on charts 19, 20, and 21, just so you all know. It's actually -- it's all in gory detail on charts 19, 20, and 21. And please don't think I can recite every chart number, but I --

Jami Rubin - *Goldman Sachs - Analyst*

We know you're a numbers guy. You don't have to remind us.

Frank D'Amelio - *Pfizer Inc. - EVP, Business Operations, CFO*

So let me run through this. The first thing we did is we provided I'll call it a contribution, for lack of a better term, income statement for the segments.

So what was in that? It was the revenues that are managed by each of the segments, the cost of goods sold associated with those revenues, and then the SG&A, the SI&A we call it, and the R&D directly managed by those businesses. And then there was other income directly managed. So when you looked at that you had what I'll call was a contribution income statement.



From my perspective for you all, that was necessary but insufficient. So what we also tried to do was provide you with for those functions that aren't directly managed by our segments, we wanted to give you guidance on how you could allocate those to the segments so that you could come up with your own calculations on the margins of the businesses.

So what else did we do? We looked at the functions that aren't directly managed by the businesses. So for example, one big-ticket item is corporate support functions. So what are corporate support functions? IT, legal, finance, facilities, procurement, HR, PR, government affairs. And what we did is we gave allocation ranges. I think the ranges were a couple points each for each of the businesses for that.

Other big-ticket item is research and development, Mikael Dolsten's organization, kind of from discovery through POC because post-POC is in the business units directly managed. So we gave you allocation percentages for that.

So then in order to calculate the margins, what we did is all you'd have to do is take the revenue, subtract out the directly-managed cost and expenses, subtract out the allocated expenses, then we gave you all the ranges on how to do that. And we did that by function and we did it by line item. We said here's how much is COGS, here's how much I think expenses, and then you can get to the margins of each of the businesses.

So that's why we went through the level of detail. And by the way, there's a lot. There's a lot in those charts, but we did it.

Jami Rubin - *Goldman Sachs - Analyst*

But help us to think about what those margins are going to look like going forward?

Frank D'Amelio - *Pfizer Inc. - EVP, Business Operations, CFO*

Yeah. So I don't want to -- I don't want to make forward projections on the margins at this point.

Jami Rubin - *Goldman Sachs - Analyst*

Right. I guess qualitatively.

Frank D'Amelio - *Pfizer Inc. - EVP, Business Operations, CFO*

I think in terms of those businesses, the way I think about them is going forward, and I'm going to do this more -- instead of on margins I'll just do it in terms of the rhythm of the business, which is GIP and VOC in terms of the rhythm of the business over time, and I don't want to say when because then I get boxed in. We expect those to be growth businesses.

And then if you look at GEP, the issue with GEP is GEP is kind of four businesses -- I think about GEP, our global established products business, as four businesses within a business. So maybe I'll just hit this real quick. Which is -- and by the way, so when you put them all together, you amalgamate the four businesses, it's been declining. But there's growth businesses within the business.

So if you look at GEP, there's kind of the products that have lost patent protection in the developed markets; that's declining. There's the peri-LOE products, so products that are approaching LOE in the developed markets; that's declining. Then there's the GEP business in emerging markets. That's growing very nicely. Last year Lipitor sales in China were up I don't know, 45%. Norvasc sales were up almost 30%. So that business is growing very nicely.

And then there's I'll call it the other GEP business, and what is that? That's our collaborations, Hisun in China, Mylan in Japan, Teuto in Brazil. Those are doing very well. It's biosimilars which obviously is an investment today but we think that's a future growth opportunity. And then sterile injectables which is growing very nicely.



So we have sub-businesses for lack of a better term in the GEP business that are growing, but they -- but once again, but they've got the headwinds of what's going on in the developed markets. So the key to that business is run it as efficiently as we can. That's a business that generates a lot of cash. And then strengthen the hand there with some prudent business development.

So that's clearly one of the areas you said Frank, what are some of the focused areas on biz dev? That's clearly one of the areas that we'll focus on relative to business development because we think there's opportunities to strengthen the hand there. But it's a good business, very good business.

Jami Rubin - *Goldman Sachs - Analyst*

This is that -- that is the one business though that I do struggle with the most because it is a business in decline and a lot of the growth drivers longer term will probably be derived from business development, which we obviously can't see.

But I guess how do you compete with your peers? First of all, who do you think your peers are in that space?

Frank D'Amelio - *Pfizer Inc. - EVP, Business Operations, CFO*

You know, it's a really interesting question because if you were to say to me is there kind of a -- what's the way I want to say this? Kind of like a perfect comp, maybe that's a good way to say it. There isn't. And then you'd say well Frank, why do you say that? The answer is less than 10% of that business is a commodity generics business.

But if you say Frank, but put it on a piece of paper. It's the usual suspects, right? It's Teva, it's Mylan, it's Actavis. It's the usual -- it's the usual suspects.

Jami Rubin - *Goldman Sachs - Analyst*

Valeant.

Frank D'Amelio - *Pfizer Inc. - EVP, Business Operations, CFO*

Yeah, Valeant. It's the usual suspects. But once again, it's really -- the commodity generics business of that business is very small.

Jami Rubin - *Goldman Sachs - Analyst*

And I think that's also true with all those competitors, their commodity business is getting smaller. So how do you compete with your peers in this space if you don't have a competitive tax rate?

Frank D'Amelio - *Pfizer Inc. - EVP, Business Operations, CFO*

So once again, the way I think about the tax rate is I view it like any other kind of line item on an income statement. And what do I mean by that? We need to be as efficient as we can be with every line item on an income statement including the tax expense line item.

And so -- now obviously on taxes we also have to make sure we're absolutely compliant with all applicable tax codes, right? So what will we do? We will continue to look for and identify and assess and evaluate actions and opportunities to further improve our tax position.

If you look over the last couple of years we've been taking our tax rate down. When we announced Wyeth we took the rate to 30%. And then we've dropped it in the last three years from 30% to 29%, 29% to 28%. This year we've got it to 27%. So I think we're doing a nice job of banging away at the tax rate.

And the tax rate is one element of competing, but there's lots of other elements to compete as well. And we have to do them all well. So we'll continue to work on the tax rate within the rules, and we'll work on all the other elements of the business that are operational.

Jami Rubin - *Goldman Sachs - Analyst*

This business had very high margins. Was the first quarter 2014 an exception? And just given the outlook for revenues going forward, should we expect margins to decline in that business?

Frank D'Amelio - *Pfizer Inc. - EVP, Business Operations, CFO*

So I think the way I'll answer this because I don't want to get into projecting margins for each business. It's just -- it's a level of detail. If you look at the guidance we've provided at an overall kind of company level, you can engineer what the operating margins will be.

If you look at it as a company, we've been pretty consistent, high 30s, 40% operating margin. If you look at the guidance we've provided this year and you kind of do the math, you get to roughly the same kind of a number.

We have a really strong operating margin. I think part of the reason for that is we're really disciplined on spending. We'll continue to be really disciplined on spending. That permeates all of the businesses. So in order for the Company to have that kind of consolidated number, all the businesses have to do really well.

And maybe just one or two other examples on this, not necessarily income statement related, although they touch the income statement, like CapEx. If you go back a couple of years ago, Pfizer standalone, pre-Wyeth, was spending \$2.5 billion a year on CapEx. If you put Wyeth in, it was \$3.5 billion to \$4 billion. This year we'll spend \$1.25 billion to \$1.5 billion on CapEx.

And just think about what I just said. \$3.5 billion to \$4 billion to \$1.25 billion to \$1.5 billion. And by the way, no one's yelling that we're starving their capital. That's \$2 billion to \$2.5 billion of cash right to the bottom line. So that efficiency is part of how we get to this high 30s to 40% operating margin number. That permeates all of our businesses.

Jami Rubin - *Goldman Sachs - Analyst*

When you made your bid for AstraZeneca and decided the tax inversion as a rationale behind that deal, that I think told me anyway that tax inversions is a priority for you. And we've seen a lot of tax inversion deals among some of the specialty pharma names but not in the big pharma names. And so I think that was somewhat of a surprise.

What is your appetite for pursuing a tax inversion? And just secondarily with Eric Cantor's surprise defeat, doesn't that push out the potential for -- I mean, good news, you probably don't see any changes to the tax laws, but bad news, you don't see any changes to the tax laws that make our country so much more competitive?

Frank D'Amelio - *Pfizer Inc. - EVP, Business Operations, CFO*

So in terms of an inversion, what I would say is this. As the CFO of a large multinational company, I have a tax team. We're constantly looking at ways to improve our tax position. By the way, much of that can be accomplished without an inversion as we've been doing.

And then obviously an inversion would be another way to improve our tax position. But my job with my team is to continue to come up with ways to identify opportunities, to improve our overall tax position, and to always do it within 100% of the rules. Kind of point one.



Point two. When you get into inversions you're talking about business development because in order to get an inversion done you have to do a transaction. And my reaction to that is there's certain hurdles that have to be jumped in order to get to an inversion. And the biggest rule is your shareholders, our current shareholders have to own less than 80% of what the combined Company is.

By the way, that's a big hurdle to jump because we're a big Company.

Jami Rubin - *Goldman Sachs - Analyst*

And there aren't many companies like AZN (multiple speakers).

Frank D'Amelio - *Pfizer Inc. - EVP, Business Operations, CFO*

So that's why I want to say -- so in terms of must we do an inversion? No, of course not. What have I said before? We had a strong hand before we approached AstraZeneca. We still have a strong hand that we're going to play. But will we continue to work on actions that can improve our tax rate and therefore improve our earnings? The answer is of course we will. It's part of what I do and it's part of what my team does every day. And I think we've done a very nice job of doing that, and we'll continue to do a good job.

But do I have to do an inversion? No, of course not. I mean if I did, I wouldn't have said I had a solid hand before we approached AstraZeneca.

Jami Rubin - *Goldman Sachs - Analyst*

Could you spin off the GEP business for example into a more favorable tax position?

Frank D'Amelio - *Pfizer Inc. - EVP, Business Operations, CFO*

So once again, no decisions have been made on what we'll do. But the way I will answer this, Jami, is to what I said before. I think -- in fact, let me add a little bit to what I said before.

In terms of the three businesses now and actually when Ian and I talk inside the Company, this is literally how we talk, which is what's most important for those three businesses now is to execute. They need to execute with operational excellence. And the reason for that is we just kind of launched this new structure, we're just disclosing that to the investment community. The absolute best way to create value going forward is through operational excellence. Operational cause will equal financial effect.

So what do these businesses need to do? What do our businesses need to do? They need to execute. And what I believe is this. We execute solidly, we do it consistently, we do it over time. That will create lots of value. That will inform the investment community which will help inform us relative to what's the best way to generate value from the businesses that we're running.

And then I go right back to my and we're agnostic to size. We'll do what we think is best in terms of taking that hand, maximizing the value, and to the extent we have to, unlocking value or doing things to acquire to create value.

But what's most important now is not about what we're going to do, what's going to be broken up, what isn't going to be broken up, what's going to be sold, what's going to -- what's most important is execution. That's what we need to do with those businesses. The value will come when we execute.



Jami Rubin - *Goldman Sachs - Analyst*

And just let me ask one last question. Do you think that the partnership with Bristol-Myers on Eliquis is the optimal partnership, optimal structure for unlocking value of Eliquis?

Frank D'Amelio - *Pfizer Inc. - EVP, Business Operations, CFO*

So I think -- I think the partnership is going well. I'd like to think that if our colleagues in Bristol-Myers were here they would say the same thing. As I mentioned before, Eliquis is starting to get a nice rhythm.

Partnerships, they're like -- there's always kind of work to be done to keep a partnership healthy. But I think the partnership is healthy and I think we're working well together, and the rhythm of that product is starting to move very nicely. Another year or two I'll come back and tell you if it's really worked because the numbers will tell. But the rhythm, those script percentages I gave before, that has a nice feel to it.

And I think in particular, the new-to-brand share with the cardiologists, that's 39%. That's a telling number. I think we're really starting to make some nice headway there.

Jami Rubin - *Goldman Sachs - Analyst*

Great. Thank you. Oh wait. One last question and then we do have to end.

Frank D'Amelio - *Pfizer Inc. - EVP, Business Operations, CFO*

Yeah.

Unidentified Audience Member

Thanks, Jami, for squeezing me in. Really quickly, Frank, you talked about creating value for shareholders. Do you see value in your current debt rating? Do you want to stay in the high single A, low double A range or would you potentially move down to triple B for the right opportunity, whatever it may be?

Frank D'Amelio - *Pfizer Inc. - EVP, Business Operations, CFO*

Yeah. So the way I think about this, you know, this is really, at least I think it is, it's a question around leverage. It always becomes a question around leverage. And I'm kind of conservative by nature, but will I lever up the balance sheet if necessary to get a deal done that I think would create significant value for our shareholders? The answer is I would. And in fact just to be clear, before we did Wyeth we were a triple A.

If you look now with Moody's, we're at A1, so an A plus. With S&P we're a double A with stable outlooks. So we've already taken actions that impacted our credit rating. But let me also be clear. I like being investment grade and I heard how you asked your question, would you stay investment grade? Would you come down a little bit in the investment grade ladder? I like being in investment grade. And one of the great things about being grade on that now is I have wonderful access to commercial paper, and commercial paper is incredibly cheap. And I like being able to borrow it incredibly cheap at incredibly cheap rates.

You're asking me kind of an or, and I'm going to answer with an and, which is I'd like to think that I can go off and do a, if we had to, do something big, lever up the balance sheet, and still keep my credit rating given the cash that we generate, because we generate lots of operating cash flow. So I'd like to try to solve it with an and. Okay?

Jami Rubin - *Goldman Sachs - Analyst*

Okay. We have to end. Thank you very much.

Frank D'Amelio - *Pfizer Inc. - EVP, Business Operations, CFO*

Thank you, Jami. Always appreciate it. It's good to see you too.

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