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EDITED TRANSCRIPT

PFE - Pfizer Inc at Biotechnology Industry Organization CEO & Investor Conference

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CORPORATE PARTICIPANTS

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CONFERENCE CALL PARTICIPANTS

Jim Greenwood *BIO - President and CEO*

Stephen Sands *Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group*

Rob Wright *Life Science Leader - Analyst*

PRESENTATION

Jim Greenwood - *BIO - President and CEO*

All right, let's find seats if you haven't yet, please. I'm Jim Greenwood. I'm the President and CEO of BIO. And we have the honor of representing 900 some companies including the largest pharmaceutical companies and the mostly small startups. And we have the pleasure of having one of the smaller start-up companies in our portfolio, I think it's Pfizer. Is that the name of it?

Ian Read - *Pfizer Inc. - Chairman and CEO*

Yes.

Jim Greenwood - *BIO - President and CEO*

And its CEO, Ian Read, who we were just chatting. He's doubled the value of Pfizer in just the last four years that he has been the president and the CEO of the company. And he's been with the company, I'm sure this will come out in the question by Steven (inaudible). And thank you so much for doing that. That Ian Read has been with this company for a very, very long time. He did not just sail into Pfizer. He's been there, and knows it inside and out.

And we're delighted that you both could be here and Steven, I'll turn it over to you. Thank you.

Stephen Sands - *Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group*

Thank you.

Ian Read - *Pfizer Inc. - Chairman and CEO*

Great.

Stephen Sands - *Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group*

Well, Ian, first thanks for joining us today. Just to build on what has been said. Pfizer now has a market cap of over \$200 billion. Has almost \$50 billion of sales, 77,000 employees globally.

Since becoming CEO you've led the restructuring of the businesses into I think they're great names. It's GIP for the Global Innovative Pharmaceutical, GEP for Global Established Products, and VOC for the Vaccines, Oncology and Consumer.



Ian Read - Pfizer Inc. - Chairman and CEO

We don't use GEP in Japan because once we'd launched it we learned how that GEP means "burp" in Japan. So we used G.E.P. in Japan.

Stephen Sands - Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group

Okay, I like that. And you've also led the spinoff of the Zoetis business. And the Nutrition business has been sold to Nestle. So you've really kind of restructured what had been a very interesting set of businesses which only ten years ago everybody was asking for all the pharmaceutical companies to be diversified.

You've actually now sort of shed a lot of the more accelerated businesses. You've organized the businesses along some various interesting lines. And just recently last week you bought the Hospira business for \$17 billion to bolster the Established Products business.

So as you think about the restructuring of the organization, what led you to that conclusion that you really took what had been sort of a very traditional model running a sort of holistic business and then sort of making it operate along business lines? What sort of led you to that conclusion?

Ian Read - Pfizer Inc. - Chairman and CEO

Well, I suppose initially it was when I became CEO I think it was always clear to me but the clarity was even more so that if we were to be successful we had to have an innovative core that could be productive and innovative which required focus. And we also were facing when I took over \$26 billion dollars of LOEs. And we had a multiple of 8 at the time.

So the only way I could see increasing shareholder value is if I could get the multiple up, and hold the earnings in front of \$26 billion dollars of LOEs. So one was fix our innovative core. Two, was capital allocation. Three, was regain trust with society, and the fourth was culture.

And so the allocation one, the capital allocation was very important for us because I looked at businesses that were inside Pfizer that were undervalued given that we had an 8 P/E. And I felt that number one, the Nutritional business should have a Consumer-like P/E and the Animal Health business should certainly do better as a standalone than 8 or foreseeably 15 where I thought we could get Pfizer to. And I think it's got about a 24 P/E now.

Stephen Sands - Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group

Sure.

Ian Read - Pfizer Inc. - Chairman and CEO

So we tried to unlock value from those businesses so we could have the resources to maintain the EPS while we developed the pipeline. And then why the two businesses, we have an Innovative business and we have an Established business. Now the Innovative business was comprised of two subsections. One Geno runs and one Albert runs.

Albert runs sort of what I call a discrete global businesses like Oncology which has a different way of going to market, the Vaccines and Consumer. And Geno runs all the rest of Innovative. And then John Young runs the Established Products.

And I sort of see the Innovative business and the Established Products business as two different businesses with different business drivers needing different management teams and different focus. And we accumulated this Established Products business through our acquisitions. And so we have a lot of bigger Established Products business than most of pharma because it was a result of acquiring businesses.



Stephen Sands - Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group

And so how far along with you with this whole realignment of the businesses are you now? And also sort of everybody speculates about the next step of that. Eventually, you'll spin off one of the businesses.

Ian Read - Pfizer Inc. - Chairman and CEO

Well, that's speculation. No decision has been made. I keep on saying that on the analyst calls. I think we're organizationally a long way along. We've got two different cultures. We have the management structures in place. We've reorganized globally.

The Oncology unit has a line of sight to Oncology in China. Geno has a line of sight all over the globe to his business and John has line of sight for his business. The teams are operating independently in a sense if they need to for their businesses.

The platforms are having dedicated support. We're generating separate P&Ls. We're letting analysts see that. But we've got to get through 2016 so we can have three years of audited separate statements.

And we also have to make our mind up is there value in a split? So we haven't made up our mind on that, and we're going to be guided by are both businesses self-sustainable, if they were independent. And what are our shareholders telling us?

So we'll look at the sum of the parts, and see what it is compared to the whole. And we'll look at are the businesses sustainable? And then we'll take a decision at the appropriate time, but guided by how to create maximum shareholder value.

Stephen Sands - Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group

There's a lot of discussion about trying to get smaller. And do you see this as one of the ways to try to get smaller, and have you seen benefits in terms of R&D and alignment of R&D along the businesses?

Ian Read - Pfizer Inc. - Chairman and CEO

There was I think a misunderstanding. When we sold Animal Health and Nutrition it wasn't to get smaller. It was to unlock value. And I think you can organize even inside a larger organization so you have smaller units that are accountable.

So I think what's more important is getting focused management behind the business that has commonality of purpose. And that's what we're trying to do with GEP and Innovative. So I think the advantage -- there is I believe -- I mean it could be an advantage of being smaller in a sense of faster communication, more accountability, speed. But you can achieve that by having a Vaccine business that's standalone. An Oncology business that stands alone.

Stephen Sands - Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group

So do it for the organization rather than split off --

Ian Read - Pfizer Inc. - Chairman and CEO

Rather than splitting because there are -- but in the end the question is I think would the business -- are there strategic reasons why an Established Product business could do better on its own and not be part of a larger organization. And that comes down to things from taxation to patent challenges, to degree of risk, to cost structure.

When you have one company, it's a little bit more difficult to have people sitting beside each other and having different salary scales. So there's lots of good reasons for both sides of the argument.

Stephen Sands - Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group

So you've raised the Established Products business and obviously the Hospira deal. So what made you sort of pull the trigger on that deal at this point of time? And what does it do for Pfizer?

Ian Read - Pfizer Inc. - Chairman and CEO

Well, we have always said we wanted to strengthen our businesses, both businesses. So the Established Products business has a great business in the Emerging Markets. And manages peri-LOE assets which causes the negative growth. And has a small generics business called Greenstone.

And we were in biosimilars but not as large as we wanted to be and we had a large sterile injectables business but it was outside of the US, not in the US. And we wanted an engine, a research engine for both of those businesses.

So in many ways Hospira was an ideal fit giving us both the culture of a generics company in sterile injectables. Giving us the research engine ongoing for Paragraph IV for sterile injectables. It gave us a presence in the US we don't have, and it gave us an ability to leverage their assets internationally. And it also strengthened our position in biosimilars, which I believe is going to be an important business in the future.

And I think the value was right. So I thought it really did strengthen our established products business.

Stephen Sands - Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group

So what does it mean for the Innovative business? Because I know there's been some statements that were made about creating near-term shareholder value and not just really focusing on the long-term development type assets. How does that sort of (inaudible)?

Ian Read - Pfizer Inc. - Chairman and CEO

Well, I think about P/E as I said. When I took over our P/E was 8. So it's difficult to get value when you've got a P/E of 8 when you add earnings.

And you had a P/E of 15 going on to hopefully higher than that, and every earnings you add gives you a lot more bang for the buck, right? So now I think we're in a stage where we have got a mid-term, long-term pipeline that looks very strong.

So to the extent that we can add assets that add earnings growth and are better than the stock buybacks then it seems a good way of using our capital allocation for either business.

Stephen Sands - Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group

Yes. Actually talking about capital allocation one of the analysts sort of said that Pfizer, he used Pfizer as one of the most investor-friendly management teams. An environment where you have an all-time high of activism.

What does this mean for you being investor friendly, and how do you sort of view what's going on with the activists in this sector? Which I think a lot of us from ten years ago kind of surprised at how this has been a sector that they've really focused on.



Ian Read - Pfizer Inc. - Chairman and CEO

Yes, I mean I think investor friendly means that your whole management team is focused on increasing shareholder value and being willing to contemplate any steps that you thought will create both short and long term. And the only issue becomes between the activists and if it's short-term value or is it long-term value?

And I think that's where this sort of crunch comes with sometimes with activists who will come in looking for a short-term pop. And they're not worried about the long-term value. And you've got to balance that.

But that's why we looked at our research engine. We sized it to how we thought we'd create value. We have a disciplined approach on how much we're willing to spend in research. And we believe that if we want to do different projects and research they have to be better than what we're doing already, and they have to replace what we're doing already because we are reasonably firm on how much of our capital we want to allocate to research.

Stephen Sands - Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group

And capital allocation you've mentioned is a very important focus for you. And clearly you did the Hospira deal and now you've announced a fairly big buyback. I mean how do you sort of think about capital allocation across the three businesses as well returning capital to investors. And how do you sort of get to the right answer?

Ian Read - Pfizer Inc. - Chairman and CEO

Well, there's only one capital which is Pfizer's capital. And we look at it project by project, and there's a balance of strategic investments because we want to strengthen the business. Because we want it to be viable as a standalone. And that it also has to pass the return on capital and does it beat share buybacks? Because that is always an alternative we have. And we try and get a mixture to shareholders of strong dividends, buybacks, and appreciation of share price. And that's the mixture we try and look at.

Stephen Sands - Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group

A lot of capital though is trapped overseas. And last year, there was lots written about you going after Astra-Zeneca and looking to move the domicile overseas and invert. Does it concern you that a lot of your competitors actually have overseas tax statuses and domiciles? And how does that affect you from an M&A and from a development perspective?

Ian Read - Pfizer Inc. - Chairman and CEO

I think it puts all American companies at a huge disadvantage. The tax code in the United States right now stimulates foreign investment, and stimulates American companies investing abroad. So to put it simply, if we make \$1 in the United Kingdom and we bring it back to the United States to invest in the United States we only have \$0.65 to invest.

If a foreign company makes, especially a Swiss or one of these low-tax countries. They have a small domestic economy so they don't have a high tax rate. If they make money in the UK, they take it into the US and they have \$0.80.

So there's a huge competitive advantage when they want to buy companies. Foreign companies have a huge competitive advantage because they're taking US earnings and they're taking it out of the US tax system at 35% and putting it into the tax system.

So it's something that needs to be fixed. I don't have a -- there are various ways of fixing it. Congress is looking at it. But it is a huge incentive to remove businesses from the United States.



And the United States is a great place to invest. It's got great scientists. It's got rule of law. It's got IP, but it has that for foreign companies as well as domestic companies. So the issue really is what is the competitive advantage? What's the relative advantage? And for a foreign company the relative advantages are huge compared to domestic companies.

Stephen Sands - Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group

That's a big concern.

Ian Read - Pfizer Inc. - Chairman and CEO

It is.

Stephen Sands - Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group

Especially since MNA. I mean if you look at what's going on there's been so much discussion about acquisitions of biotech companies. And of course a lot of those companies don't have earnings and revenues today. And so being able to buy them with cheap dollars or cheap Swiss francs or euros is a real issue for the industry.

Ian Read - Pfizer Inc. - Chairman and CEO

Right.

Stephen Sands - Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group

So going in that direction, I mean Pfizer if you look at some of the different companies there's been actually a big consolidation and a lot of acquisitions made by biotech companies. That's something that you've largely sat out of. You've done some small deals, and you've done a lot of licensing, and you've done a lot of alliances. And we'll come to that in a second.

But given where you used to be, a very active acquirer of biotech companies seven, eight, ten years ago to sort of maybe a more discerning consumer. What stops Pfizer from being more aggressive in acquisitions of biotech companies? Is it valuations? Is it the state of science?

Ian Read - Pfizer Inc. - Chairman and CEO

Yes, I mean I don't know if we've done -- I mean we did the deal with Merck. I know it's not a biotech company but it was a big investment. And we've done a deal with Spark. We've done small deal with a small molecule for (inaudible).

Stephen Sands - Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group

More alliances than acquisitions.

Ian Read - Pfizer Inc. - Chairman and CEO

And that was sort of -- yes, I mean I think the problem has been that when we look at opportunities our companies are willing to pay more either because of their tax situation or because they feel they need to fill in their pipeline in a different way. I mean we have a very active internal research organization.

We compare the opportunities with our internal programs. And you've obviously got to be very careful it's not invented here bias when your scientists are looking at it. But it really comes down to value. How do we add value? We didn't get involved in one acquisition. We looked at it in the diabetes sector. We didn't pay. The two companies that did buy it, wrote half of it off two years later. So we sort of felt vindicated by saying that we were very value focused.

Stephen Sands - Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group

So let's talk about the Merck alliance because that's a really creative alliance. It's a very big transaction. But the compound, how do you sort of think about that compound and the whole immuno-oncology area in terms of being competitive against some of the other compounds that are ahead of you? So how do you think about leveraging that?

Ian Read - Pfizer Inc. - Chairman and CEO

Well, number one, I don't think -- there's no evidence at the moment that there's any real differentiation between any of the PD-Ls or the PD-L1s. So we think that our partner's asset is as good as any of the other assets that are out there.

And it was a way of us of accelerating our immuno-oncology business. We were behind the timelines with the PD-L1s and the PD-1s. This gets us at least three tumor types to be probably first in class as a monotherapy. And gets us very much into the game in the second generation of immuno-oncology. And we have 41BB, we have an OX40, we have bio specifics. We have lots of assets that can play in the second generation of immuno-oncology when linked with a PD-L1.

And we have a lot of our internal portfolio which we think is a logistic for PD-L1 like Ibrance or Xalkori or the follow-ons to Xalkori or Inlyta. So I think it puts us in a situation where I think we all had 20 clinical trials going in '15. Of which six will have registrational intent.

And then you'll see this huge, I think, drive from Pfizer in second and third generation immuno-oncology. So I think it was a key partnership for us.

Stephen Sands - Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group

Well, your oncology business is really developing and congratulations on the Ibrance approval. And that was unexpected by the marketplace. I think everybody was surprised. You got that in phase 2 data. I mean how do you think about your Oncology business? I mean again it's sort of separate from your Innovative business. It is a very contained franchise. I mean how do you think about that sort of growing out?

Ian Read - Pfizer Inc. - Chairman and CEO

Well, it's contained. I would say it's not separate in a sense that the science is still under the chief scientific officer, but it is a separate business unit. And it's our largest segment we invest in of all of the segments we invest in.

We think we have world-class scientists and a great pipeline. And have our sights built on building a top Oncology business. And we think we have the substrate. (inaudible)--

Stephen Sands - Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group

Do you think the marketplace understands that business? Do you think the marketplace understands your business?



Ian Read - Pfizer Inc. - Chairman and CEO

No, I don't think they do. This is why they don't really see -- I mean I've had a lot of people saying, "Well the immuno-oncology was asset was an expensive asset with MERCK." The market doesn't see that the value isn't in the first wave. The value is in the combination products that are going to follow.

And there's a lot of now sub-segments of the PD-L1 marketplace where PD-L1 isn't expressed enough and you have other agents that can turn it on. I think the huge value comes in second and third generation. And so we feel that having a dedicated team of top-notch scientists and commercial people dedicated to Oncology will enable us to become a first echelon company in Oncology while still being part of Pfizer.

Stephen Sands - Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group

Were you surprised by GSK coming out of Oncology, and Novartis sort of doubling down in that whole transaction?

Ian Read - Pfizer Inc. - Chairman and CEO

I think I really can't talk to the strategies of other companies. We have had -- prior to that we had discussions with several partners looking at portfolio swaps or geographic swaps. Because what we've seen up to date has been a portfolio swap.

But geographic swaps are also possible where one company may decide to pull out of a certain area and vice versa. I think all of those options are ways of doing what I believe the industry has to do which is consolidate.

Stephen Sands - Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group

Yes, well I suppose that that would be, right? You'd put together --

Ian Read - Pfizer Inc. - Chairman and CEO

We did. We did, but we continue to be interested in all those type of ways of getting synergies out of the business and getting more focused. But if you look at the pressures that are around in the economy and the growth of the economy I think that the industry needs to consolidate.

Stephen Sands - Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group

Again we drove a lot of consolidation way back when with actually getting scale for being a primary care company and in the US and globally. And now if you look at the US primary care market, I think the numbers are it was 60% in 2008 with 60% pharmaceutical sales were in the primary care. I think last year it was 30%. If you go out to 2018, I think our valuated pharma says it can be 10%.

Ian Read - Pfizer Inc. - Chairman and CEO

By value.

Stephen Sands - Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group

Yes, by value. What is the implications of that for Pfizer and the industry?



Ian Read - Pfizer Inc. - Chairman and CEO

Well, I think it's been if you're going to launch into primary care you need a really differentiated product. The market is still there for products that are differentiated. But you've got a higher and a higher bar to overcome because the products have been so successful.

So that's why you're seeing portfolios go into higher unmet medical need and specialty areas and you've seen markets develop that you never thought would have that value ten years ago. Right?

Stephen Sands - Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group

And that will drive consolidation, because you were talking about consolidation. Because as you look at oncology could you see the need for more and more molecules in the hands of fewer companies so you can do combo products and things like that?

Ian Read - Pfizer Inc. - Chairman and CEO

Yes, I don't think there's any unvalidated -- what forces consolidation is there's no unknown targets. There's just different mechanisms of getting to those targets. And then the speed of follow-on makes it difficult to maintain exclusivity.

So look at the Hep C market where I think it's a perfect example of the market working and competition coming in. And you're seeing what you'd expect from competition. So one way of dealing with that is consolidation because it takes out huge amounts of duplicate research and duplicate costs.

Stephen Sands - Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group

It's interesting if you think about it though, with all these specialty areas with much smaller targeted sales forces and knowing your patients by name in some cases. Does that sort of change the industry back to being less about sales force and marketing, and more about innovative research again? I mean there's a period where it seems like you need to sales force scale. It seems like that's less important in the specialty world. Or do you think it's a balance? How do you think about designing your organization?

Ian Read - Pfizer Inc. - Chairman and CEO

I think it's moved the mix. It's moved the mix, and it also is partly -- if you go to the emerging markets it's still primary care markets. It's all about scale, it's all about sales force, it's all about those relationships with primary care physicians. And in the US it tends not to be so much about the size of the sales force and more about the science. And I think that's positive as well to the industry's image.

Stephen Sands - Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group

It's interesting, when you look at people like Celgene and Gilead which largely compete in one area, right? One therapeutic area. Is there lessons that you try to draw into Pfizer as you look at your business units and try to learn from them?

Ian Read - Pfizer Inc. - Chairman and CEO

Business units in a certain way try and mimic the agility and the speed of a Celgene. But for every Celgene there's a hundred that didn't make it.

Stephen Sands - Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group

Yes.

Ian Read - Pfizer Inc. - Chairman and CEO

And people only look at the ones --

Stephen Sands - Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group

And it only took 20 years for Celgene too, right?

Ian Read - Pfizer Inc. - Chairman and CEO

I mean no, I mean it's a great company, a great company, great leadership, but it's a high-risk business. And so it's easy to point to the two or three that really break through and make it, and make some bets that work out. And no one talks about the other 99 companies that didn't succeed, right?

Stephen Sands - Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group

Yes, and do you think they're sustainable business models when they only have a narrow, therapeutic focus? I mean do you think that's a challenge?

Ian Read - Pfizer Inc. - Chairman and CEO

I think it's higher risk, but as long as they innovate and they have depth of science and continue to innovate in their area I think they can be successful. But how long can you continue to get improvements in one particular area?

Stephen Sands - Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group

Do you buy -- there's been a lot of discussion about franchise value. Do you buy into the concept of franchise value?

Ian Read - Pfizer Inc. - Chairman and CEO

I think I do. I think I do in the knowledge your scientists accumulate and the knowledge you accumulate with your customers. And I think Geno's done some interesting work on this actually in his business looking at the value of creating a franchise in a certain area and being in deep in that area. And it would certainly appear that the market rewards companies with franchises more than they reward companies that have a peanut butter approach to their innovation.

Stephen Sands - Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group

So since we're talking about specialty products, it's probably a good time to raise reimbursement. And since that comes up as an issue in many of these therapies with the high price tag. With the recent developments we've seen in the HCV market, with Express Scripts and AbbVie and Gilead, and clearly it's on everybody's minds. I mean how do you think about reimbursement and the uncertainty as you think about your own pipeline going forward.



Ian Read - Pfizer Inc. - Chairman and CEO

I think if you have clinical differentiation and you can communicate to patients, you'll get reimbursement. I mean Gilead, for all of the talk about it, they got the price they asked and they were successful. And now there's competition coming in, and that's fine. That's what should happen. Competition should come in, and that's how you regulate price and value.

Stephen Sands - Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group

So if you just take for example though you're developing a PCSK9. There's several others that are developing it also. And this will be a expensive program to develop, I mean how do you sort of look forward and say, "Okay, who's going to win this and get the reimbursement."

Ian Read - Pfizer Inc. - Chairman and CEO

The perception is and I think it's right. The perception issue can create more differentiation in small molecules than you can in large molecules. That small molecules tend to be more differentiable in the way they interact with the receptors.

Large molecules I think you need to have a better clinical development program. You need to have better data. And that's part of the way you differentiate. So that's what we're trying to do with our PCSK9 bococizumab. We have a different strategy on how we're developing it. And I think the data will decide whether we're successful or not.

Stephen Sands - Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group

And is this different from the past? I mean do you see greater pressure on reimbursement now and greater pressure in sort of competitive molecules than you did in the past?

Ian Read - Pfizer Inc. - Chairman and CEO

Well, I think what's happening is this faster speed. It's difficult to maintain the differential advantage longer. And that allows managed care then to say, "Well, look I don't really see significant differences between these molecules so you get more price pressure undoubtedly." But I still think there's a huge space for unique molecules with unique advantages where you can recuperate your investment costs.

Stephen Sands - Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group

So you raise sort of small molecules maybe the ability to differentiate those more than maybe large molecules. Biosimilars clearly -- not biosimilars but biologics are becoming a more important part of the marketplace. I mean how do you see your own portfolio? How do you balance it?

Ian Read - Pfizer Inc. - Chairman and CEO

Well, I mean we take a multifactorial approach and this is on bococizumab which we have a large molecule. We also have a small molecule development plan, we also have a vaccine approach. And I think what you need to do is you need to be in the market with a best in class biological. And I think it's becoming more and more important also to be first in, first or second.

Stephen Sands - Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group

And when you look at the market going forward. I mean biosimilars obviously was part of things that you were doing internally at Pfizer, and you're developing a number of biosimilars. Hospira brings you some additional capability in biosimilars.



People are looking at sort of \$70 billion dollars of patents, of molecules losing patent exclusivity over not too long between now and 2020. I mean how do you see the biosimilar market play out? And how does that sort of fit in again to the strategy of what Pfizer's developing both biosimilars, generics, and innovative products?

Ian Read - Pfizer Inc. - Chairman and CEO

Well, look you have marketing exclusivity, you have a patent. When it ends, it ends. That's the model. That's the model you have to live with and you have to survive over. Large molecules will have a longer period of protection given the difficulty of - the manufacturing is the process.

And they've had a longer period of protection than normal. And I think you have to accept that the consumer over time, the governments expect to have access to biologics, high-quality biologics that have had their exclusivity at a lower price. So as a major innovator we need to play in that space.

We have the capabilities of delivering those products at high quality. But I don't think the market in biosimilars is going to be the same way as the market in small molecules. It's not that easy. There's variability lot to lot. Manufacturing is a lot more difficult. So I think it's going to be a good market where there's going to be reasonable returns. But the consumer will get a high-quality product at a lower price once the patents gone.

Stephen Sands - Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group

Yes, when you talk about some of these products we always seem to talk more about the US and European markets. How do you think -- I know there used to be a lot of discussion about emerging markets, and emerging markets now have currency issues and growth issues. And how does that all play into the strategy at Pfizer?

Ian Read - Pfizer Inc. - Chairman and CEO

Well, we have a big emerging markets business which is in GEP. It grew I think 7% last year. I think it's a marketplace that healthcare is very correlated with GDP. The emerging markets I think it's a secular turn around. I think you're going to see continuing GDP growth and maybe bumps in the road. But it's only going one way. Asia it's going to become more prosperous and more wealthy and so is Latin America. And they're going to want more healthcare.

Stephen Sands - Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group

Will they want all these innovative drugs that we're developing?

Ian Read - Pfizer Inc. - Chairman and CEO

Well, they don't --

Stephen Sands - Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group

Can they pay for them?

Ian Read - Pfizer Inc. - Chairman and CEO

Well, they don't. They're not a large consumer of innovative really in any drugs today. Probably it's a price issue. But they are a large consumer. Biosimilars should be very affordable in those countries.



And I think part of the problem is the model. The model that -- this issue that emerging markets are concerned that there's no -- okay, I'm going to put it this way. In the US, the US has the most tiered marketplace in the world.

No one pays the same price for their medicines in the United States, no one. Everybody pays a different price point. But if you go to the emerging markets --

Stephen Sands - Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group

At my insurance, they don't pay for anything it seems.

Ian Read - Pfizer Inc. - Chairman and CEO

Well, there you go. So whereas in -- and you know the government here has been very forward looking in creating those tiers of veterans and Medicaid and working with the industry to allow a sort of segmentation of the price points. That's not quite true in India or other countries.

So that makes it difficult for them to access highly innovative products. And then you have this blowback that if you're giving highly-innovative products at low prices in emerging markets then you get these Denmark's and you get countries in Europe saying, "Well, we want access at the same prices."

So I think if the world could move towards the realization that intellectual property isn't a barrier to access, and pricing tiers is the best way to ensure access. The market for innovative products would be a lot more robust in the emerging markets.

Stephen Sands - Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group

Maybe I'll open it up to some questions from the floor. Is there some? Are we intimidating people? Okay, well if anybody wants to ask a question, if you just go up to the mike. In the meantime, I'll just ask some more questions. But feel free to go to mike, and we'll be happy to take some questions from the floor.

You have a bunch of people in this audience who have market caps a fraction of yours. And some private companies. So as you look out there I mean what are the kinds of innovative technologies that you hear from your colleagues at Pfizer that they're interested in finding? What are the exciting -- as you look into the future what are the exciting technologies and biotech opportunities you see out there?

Ian Read - Pfizer Inc. - Chairman and CEO

Certainly gene therapy is an exciting area and is maturing. I think it's going to mature a lot faster than people think. It will certainly represent a challenge to the ordinary or the normal model of delivering pharmaceuticals. Certainly oncology continues to be a hot area with CART technology and all the type of innovations you have there.

I think the problem for us is that the innovation is so massive. And it's so difficult given the early stage that most of the innovation is so difficult to be able to pick winners. To pick people you want to invest with.

And we as a company we try to be investor friendly in that sense. But we don't score very well from our potential customers I must say. Most of the small bio tech companies don't rate Pfizer very highly on being customer friendly. Maybe that's because we don't pay enough.

But it's certainly we look very hard to have good relationships and partnerships with people with technology that we believe we can bring in and excites our scientists.



Stephen Sands - Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group

Are you surprised you don't -- it surprises me that we don't see more companies developing some innovative approaches for Alzheimer's disease and cardiovascular disease. And it seems like everybody's a rare disease company today or an oncology company. Does that surprise you?

Ian Read - Pfizer Inc. - Chairman and CEO

Well, I think it's the scientists that are there. I mean what do you need to develop a market? You need an unmet medical need, you used to need a large population, and you need a scientific path. Where's the scientific path on Alzheimer's? Is it beta amyloid, is it Tau is it secretase? Is it the base? I mean it's just not clear what the path is. And if you're a small company, how do you afford the investments.

I mean we bought Wyeth. Wyeth could spend, I don't know, a billion, a billion and a half on bapineuzumab and it didn't work. And maybe it didn't work because it was being tried out in moderate to severe patients and you need to start earlier. Who's going to fund that?

This is a big issue. The FDA needs to agree to use biomarkers to approve products that could potentially change the course of Alzheimer's. But if you wait till the data is in, you've got no patent life left.

Stephen Sands - Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group

You think the FDA will ever get there?

Ian Read - Pfizer Inc. - Chairman and CEO

Yes, I think with twenty-first century cures that is being proposed by Upton and Congresswoman DeGette. I think it has a huge possibility of helping the FDA modernize its regulatory science.

Stephen Sands - Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group

How do you work with the FDA? I mean are you trying to change the paradigm there?

Ian Read - Pfizer Inc. - Chairman and CEO

Well, the FDA is your boss, so how do you work with your boss? I mean they have the power.

Stephen Sands - Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group

Usually I kind of manage upward.

Ian Read - Pfizer Inc. - Chairman and CEO

We try and have a very cordial relationship with the FDA. We try and meet their scientific requirements. It is sometimes difficult. They have a remit which is public safety. And they have to balance safety with efficacy, and I think they tend to lean more heavily on the safety side and that's not unexpected given the way they're regulated, the way they're overseen by Congress.



They make one mistake and they're villains. They make six right decisions and no one cares. So you have to understand the FDA tends to be very conservative so you need to work through that. You need to be professional with them. And there's some great professionals within the FDA.

Stephen Sands - Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group

So I've come to the end of my questions. I thought some of you guys could sort of ask some questions.

Unidentified Audience Member

How about me?

Stephen Sands - Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group

There you go.

Rob Wright - Life Science Leader - Analyst

Rob Wright with Life Science Leader. So at the beginning of your talk you talked about four things that you wanted to work on in rebuilding shareholder value. And the one that I'd like you to elaborate on a little bit more is the trust factor not from a Pfizer perspective, but more from an industry wide perspective.

Ian Read - Pfizer Inc. - Chairman and CEO

Yes, well I agree. It's not really a -- Pfizer can't, no pharmaceutical company can get a particular advantage. The industry has to recuperate trust and -- well recuperate. There's several issues here in my opinion on this problem of trust. If you look at our reputation in Japan or in the emerging markets, pharmaceutical industry is held in high esteem.

The individuals namely buy products out of pocket, and they pay for quality and they recognize quality. And they really hold us in, I think, appropriate esteem. Funny enough where we're more regulated and the costs are more opaque, you tend to have a problem that the -- and there's a huge perception gap between how we operate and how we're perceived to operate.

And this has been built up over the last 20 years by I think court cases where companies have paid large fines because of presumed off-label marketing. And they've paid those fines to avoid worse consequences. This has created in the minds of individuals an idea that there is something wrong going on with the industry.

In reality, I think part of the problem is that we don't have enough under commercial free speech. We haven't established enough authority and the right to speak openly about our products with physicians and with patients. So you've had on one part this perception that there is money flowing between us and the healthcare professionals in some way that is negative for the healthcare of the individuals.

And our marketing practices have been perceived as being suspect. Our clinical trials, as you all know a clinical trial or the result of the clinical trials is the result of statistical analysis. And sometimes it's a matter of interpretation of the data.

And so it's an area that can be very easily abused by individuals who want to come in and want to recut the data and reinterpret the data. And then you get this used by plaintiff bars and people like that.

So I think the industry has had a problem of firstly, most of the population don't know what we do. Every time you watch a TV ad, what do you see as representative pharmaceutical company? Pills coming off the manufacturing line.

Or perhaps occasionally if it's biotech, you see somebody looking down at a microscope or the PET. But if it's a Pfizer it's a pill coming off a manufacturing line. And our actual name is the research-based manufacturing association which is a problem.

So part of the issue is that most people believe that the research is done by the NIH, and hospitals, and the government, and not by the biotech and the pharmaceutical industry. So that's a big issue that we need to educate that between finding a target or finding a gene like the JAK family. And getting to a product takes you 20 years and huge capital at risk. So we need to educate on that.

Secondly, we need to work to close this perception gap between what we do and what we're perceived to do with our interactions with academics, and physicians, and our clinical trials, and how we publish them. And then we need to work with partners. And that's I think how we can change the perception of the pharmaceutical industry. But it's tough.

Unidentified Participant

I'm wondering if you could talk a little bit about precision medicine and maybe moving beyond just sort of the standard view of companion diagnostics with oncology products. Looking at complimentary diagnostics and maybe other therapeutic areas. Whether or not you think we'll get past the hype and see some real value here. And what it takes for a company like Pfizer to realize that value?

Ian Read - Pfizer Inc. - Chairman and CEO

I didn't quite get your -- you're asking the diagnostics. I mean we --

Unidentified Participant

Yes, moving beyond just companion diagnostics for oncology. Sort of broadening precision medicine and realizing the potential. What it might take to do that.

Ian Read - Pfizer Inc. - Chairman and CEO

Well, we've looked at the diagnostic space. And at the moment we believe it's a good space for agile companies that are focused on diagnostics. And that's their reason for existing.

And that the diagnostics we can always partner with when we have our precision medicine or we have a gene therapy or if we have a particular insight that requires the diagnostic. We would rather go out and partner with diagnostic companies and take our capital and invest in diagnostics because that's not our business.

Stephen Sands - Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group

I think some of the question was also just as you look down the road, I mean do you see companion diagnostics are going more personalized medicine. Really finding -- maybe when we sequence everybody's genes do you see that as being sort of really changing the paradigm of either delivery of bio drugs or development [of this].

Ian Read - Pfizer Inc. - Chairman and CEO

I don't think we're sequencing your genes. I mean the issue is there's a lot of -- I mean how many people have bought one of these FitBit things, these, right? You have it on still?



Stephen Sands - Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group

Not today.

Ian Read - Pfizer Inc. - Chairman and CEO

No. I mean you buy it and you use it for about a month and then you find out there's no more utility to it. I mean it doesn't really tell you a lot. It tells you sleep, and it tells you how many hours you sleep and if you sleep light and heavy. And it tells you how many steps you take.

Stephen Sands - Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group

That's right.

Ian Read - Pfizer Inc. - Chairman and CEO

And what do you do with that? Right now once diagnostics get to tell you what's the drug level in your bloodstream on a continuous basis. And measures the side effects and can be useful in clinical trials. Now I think diagnostics is going to take off.

But before they become a lot more useful in doing clinical trials and using the medicine. I think they're nice to have but not essential.

Stephen Sands - Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group

What about changing the paradigms with people like Google? I mean when you think about they have Calico. They have Google Health. They have the glasses. I mean do you see them as being a future competitor for a pharmaceutical partner or a future partner?

Ian Read - Pfizer Inc. - Chairman and CEO

I think they'll enable the better use of pharmaceuticals. That's very different from discovering and development of pharmaceuticals.

Stephen Sands - Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group

Because they get a lot of information. Which if you go back to things like you talked about FitBits and things like that.

Ian Read - Pfizer Inc. - Chairman and CEO

Yes, but they -- right. They get information and that information can be useful in running a clinical trial. I could see them becoming partners with organizations that help run clinical trials. I could see us talking to them about having devices that would help us monitor patients better and things like that. But I don't see them becoming direct competitors in drug development. It's a totally different skill over a different timeline.

I mean I believe Google -- I think I've heard Google believes you can put 26 bright people into a room and give them six months they can solve anything. Well, go try it with pharmaceuticals.

Stephen Sands - Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group

Go try it with Alzheimers disease, right.



Ian Read - Pfizer Inc. - Chairman and CEO

And I admire their business model. And I admire what they do. And it's great that they're in that area. I think their innovation will help a better use of pharmaceuticals.

Stephen Sands - Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group

Could they encourage more consumerism? I mean if you really think about it you already have with the rare diseases a lot of affiliation groups that are actually impacting development in what drugs. Do you see this as sort of continuing to roll out, and how do you think about Pfizer interacting with those groups, creating them and fostering them? And it goes back to this trust issue a little bit.

Ian Read - Pfizer Inc. - Chairman and CEO

Yes, I mean I think what we look at is -- and my view may be outdated. I'm getting long in the tooth here in the pharmaceutical business. So perhaps a younger executive would have a completely different view of this.

But my view is still that you do the basic science. You get the genetic lead. You get the target. You get the mechanism. And in some cases you can use the diagnostics. Sometimes you can't.

And when you can get a diagnostic it's going to enable a better use of the pharmaceutical product. And maybe a more consistent use, and it may help adherence. But I don't see it as being a competitor industry. I see it as being one that we'd be very happy to partner with, but one that we don't have the skill set to enter into. And they don't have the skill set to enter into drug development.

Stephen Sands - Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group

Any other questions from the audience?

Unidentified Participant

I wonder if you could just speak briefly to the immune therapy space where you see that going with regard to big pharma and the rate of adoption?

Ian Read - Pfizer Inc. - Chairman and CEO

Yes, so I'm not a scientist. I'm not an expert in these areas. But as I said I think the PD-1s the PD-L1s is the first wave. We're beginning to learn now we can subset I think into four big subsets the response to immuno-oncology at least the PD-1s, PD-L1s.

And so I think we're just at the beginning of the use of immuno-oncology. And I think you're going to see -- we certainly see using the backbone of PD-L1 and using OX40 or a 41BB to stimulate expression of the PD-1 or a small molecule.

I think the market is going to continue to expand. It is going to be very, very important to oncology. And eventually will result in cures. That's my belief. I think we're just at the beginning. And there's plenty of room for innovation, and plenty of room for improvement.



Unidentified Participant

Good afternoon. In this country there seems to be a growing belief by patients that they have the right to investigational drugs on a compassionate-use basis. And just this week FDA has taken steps to streamline the process. Do you see that trend as a threat or an opportunity or maybe a little bit of both?

Ian Read - Pfizer Inc. - Chairman and CEO

Well, it's a threat potentially on clinical trials as is the internet because the people can find out basically anything and unblind the trial by the side effects. So the use of the internet and patient groups getting together threatens your ability to run a clinical trial to its end, one.

Two, I don't have any problem -- here I'm going to, well I'll try not to be controversial. Because people get upset when I get controversial. I would like every patient that has no other alternative to get access to medicine that could save their life. But I don't want that to happen and have it destroy the development of the medicine.

So while the FDA insists that anybody who uses an experimental medicine that the adverse events and the profile goes into the label. There's going to be a huge reluctance to allow people into early use because they're not necessarily the target patient. They have other conditions which make them very vulnerable. And as a person who is responsible for shareholder's money and future patient impact, you don't want to expose a medicine that you don't know a lot about to extremely ill people.

So it's a very fine balancing act. So I think what we need is you need the regulator to say, "Look, if there's a right to use, and the physician believes it's an appropriate use and the medical staff of the company believes that there is a medical reason why there's a possibility this medicine could help this patient." Then we're more than willing to stand ready to deliver it. But I need the regulator to say that, "That what happens to that patient is not included in my database." Otherwise you potentially destroy drug development.

Unidentified Participant

Thank you.

Unidentified Participant

I'd like your comment on pricing. We all have heard and read reams and reams of documents on Sovaldi and the price and how expensive it is. And this is a special situation I think because there's so many people that actually need something like Sovaldi because of the prevalence of Hepatitis C Genotype 1.

So this situation has been in the literature and in the press that the government can't afford to pay these high prices for a drug that is important for so many people. Which is in contrast to the genetic diseases which may account for a high price, and may be substantial. But for Sovaldi and for something that has a very high need for a very large number of people, what can the industry do? And what is the position of the pharma industry on this when the government says I can't pay?

Ian Read - Pfizer Inc. - Chairman and CEO

Well, you touch on a very difficult subject. I mean for instance in Sutent, which is our product for renal cancer. We give away 30% of the units in the United States. And we made a commitment that the out of pocket won't exceed a certain amount.

But this is a very difficult thing for the pharmaceutical companies to do because eventually you don't have enough resources to continue to develop. So in the case of Sovaldi, I have no affiliation with Sovaldi. I'm not here to defend Sovaldi. But in general, the intellectual property and the product exists because somebody took a risk.

They took a risk with their capital to produce this product. And I think in a society such as United States, the owner of that intellectual property has a right to recuperate their investment risk. The issue is not one of -- and I think by the way it's not one of it being expensive.

I don't think it's expensive. In fact, the cost to society of Hepatitis C over the life of the patient sometimes can exceed half a million dollars. And this product cures it for \$80,000. So I think it's a hugely, highly valuable product.

The problem is the affordability issue. The problem is that insurance models are not set up to pay for cures. Insurance models are set up to pay for chronic disease. Where you're on the insurance roll, you pay a premium every year. And they can calculate the risks and the risk corridors. And they pay out so much money for medicines and to the hospitals. And they can calculate a return.

Well, for a cure they can't calculate how to price it. Because how do they put it in their risk models? Once you're cured, you may not be in their premium pool next year. And so our insurance system isn't set up to pay for cures.

What are they going to do with gene therapy? When you've got a one-time therapy that will save the public \$1 million, \$2 million dollars, saves the insurers. But the innovator wants to be paid once. And they want that net present value at the time of the cure.

Our system's not set up for that. So I don't think it's a matter of they're being expensive. I think the matter is how does society make them affordable by how do you spread the cost over a period of time.

Stephen Sands - Lazard - Vice Chairman Investment Banking and Global Co-Head Healthcare Group

And with that I think we're out of time. If you didn't ask your questions, you missed the opportunity. Thank you very much. Thank you for being so generous with your time.

Ian Read - Pfizer Inc. - Chairman and CEO

Okay. Thank you.

Jim Greenwood - BIO - President and CEO

Stephen, great questions. Ian, illuminating answers. Thank you very much. For the benefit of all, the next and final session of this conference will take place in this room. It's the closing plenary, it's entitled, "What's Liquidity Got To Do With It?" A 2015 market outlook. Please join us for this closing session and our customary champagne toast. This will start in a few minutes. Thank you.

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