THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

PFE - Pfizer Inc at Morgan Stanley Healthcare Conference

EVENT DATE/TIME: SEPTEMBER 17, 2015 / 6:55PM GMT

CORPORATE PARTICIPANTS

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

CONFERENCE CALL PARTICIPANTS

David Risinger *Morgan Stanley - Analyst*

PRESENTATION

David Risinger - *Morgan Stanley - Analyst*

Okay, thanks everyone for joining the Pfizer session. Please refer to disclosures at www.morganstanley.com/researchdisclosures. It's very much my pleasure to welcome Frank D'Amelio, who is Executive Vice President of Business Operations and Chief Financial Officer. He's been with the Company for several years, as you know, but previously he was Chief Administrative Officer and Executive Vice President of integration of Alcatel-Lucent, where he was responsible for the Alcatel-Lucent integration process, and previously he was COO of Lucent Technologies. So, Frank, thank you for taking the time to join us. We appreciate it, I thought I'd turn it over to you for some opening comments and then we'll jump into the Q&A.

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

Sure. Pleasure to be here with everybody today. We've been busy, we closed on Hospira on September 3. I would say that's kind of the beginning of the really hard work that needs to be done. We've been integration planning, now we could start -- we need to start actually, I call it, integrating and do it in on an actual basis with implementation. And so we are real busy with that.

Last quarter, I thought we printed a really nice second quarter. We'll get into that in some detail when we get into some of the Q&A, hopefully I have an opportunity to talk about that. I think the real new entry for the second quarter, from my perspective, was our revenue growth. We had operational revenue growth $125 million despite almost $850 million in negative impacts of LOEs on our revenue, despite that we were able to grow revenue operationally for the quarter by $125 million, 1%, so I'll get into some of that in detail.

I think the last thing is just hopefully you continue to see our drumbeat relative to capital allocation. We said we buy back $6 billion worth of our shares this year, we've done that, we did an ASR early in the year for $5 billion, we've completed that. Between our buybacks this year and our dividends, we returned to our shareholders this year. We expect to return to our shareholders approximately $13 billion. So just few little highlights relative to what we've been up to.

David Risinger - *Morgan Stanley - Analyst*

Well, congrats on the completion of the Hospira transaction. I thought it would helpful for people to hear you frame the business as it stands on a pro forma basis in terms of revenue contribution and earnings contribution of Innovative versus Established Products now that Established Products includes Hospira?

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

Sure. So let me talk about Hospira first and then I do that, I'll frame the overall Company. So let me start with a few numbers though. So if you look at last quarter, we did almost $12 billion in sales, $11.9 billion, give or take about $5 billion was the Established Products business, about $6.6 billion was the Innovative business. So just in terms of framing the numbers a little bit and there is a few other items that will bridge it from, what I just gave you to the $11.9 billion.

Now in terms of Hospira, Hospira will accrue entirely to the Established Products business, make sure I say that again, it goes entirely to our Established Products business. And what Hospira really does is it strengthens that business in particular in two areas, on sterile injectables and biosimilars. We look at those markets and once again we obviously look at external information, information like IMS, we see the biosimilars market growing from a couple of billion dollars now to $20 billion by the end of the decade. We see sterile injectable growing from, call it, $35 billion today to $70 billion by the end of decade.

So clearly we see those as areas ripe with opportunity when we put our two businesses together, we put our capabilities in those areas together with Hospira business. I would like to say, a good business development deal is one plus one equals four, five, six. I'd like to think that when we're done with all the integration, all implementation that will have a transaction where one plus one equals significantly more than two.

Let me run a few numbers for everybody in terms of what I've said previously publicly relative to the Hospira acquisition. $800 million in synergies, we'll deliver that in the third full year following close, we'll get approximately 55% in year one, 75% in year two, 100% in year three. And then in terms of the line item details with that roughly half of that will come out of SG&A, less out of COGS and to a lesser extent R&D.

And then in terms of just guidance, because you asked me about pro forma with the numbers. We'll be updating our current Pfizer guidance which we updated on our last earnings call, we'll be updating that in the near future and what we'll do is update got to reflect Hospira acquisition for the year and that will give you all a feel for the impact of Hospira by line item on our income statement for the year. And just remember for the year, it's a stub, basically we're going to get a fractional year domestically and internationally relative to our annual guidance, then we give 2016 guidance, obviously Hospira we'll have in there for the full year.

David Risinger - *Morgan Stanley - Analyst*

Got it. And my estimate suggests that Established Products pro forma for Hospira will contribute about 60% of Pfizer's earnings even though Established Products are much smaller percentage of revenue. Is that in the ballpark?

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

So we give, we provide P&Ls for all of our businesses what we did at the beginning of the year as we gave ranges, right. So we gave ranges in terms of the P&Ls, and what we did is we gave a P&L by BU and then we give ranges in terms of how to allocate enabling functions, how to allocate our WRD research, how to allocate our medical organization that gives you the ability to calculate what the P&Ls are. And always, I never like to give a specific percentage on a business day, because it bounces around from quarter to quarter, but it's clearly more than half of the business.

David Risinger - *Morgan Stanley - Analyst*

Got it. And in terms of the separation process, obviously you've been investing and separating Innovative from Established to create optionality, could you just talk about spending on separation to date and then going forward, how you see that spending ramping over the next few years.

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

Sure. So, before I run numbers on this, let me give a little context, right, because this is something that requires some context. If you think about Pfizer, what have we been doing, I'm there now eight years, but even before I got there, what have we been doing? We've been restructuring, think about the Company, we've been restructuring for, jeez, a decade or so. So when you restructure, what do you do? You consolidate, you combine, you integrate. What are we doing now? In terms of what we're trying to do in terms of giving ourselves the option, and I'll come back to this, we're basically almost doing a massive carve out, it's really a massive carve out.

So if you run the numbers and then I'll get into some of the details underneath what's causing the numbers, what I said on the last earnings call was we had spent about $300 million since inception of the project, project started in 2014 that we would spend about $400 million this year in 2015 that the overall cost of the project would be in the low billions of dollars. Quite frankly, when we do benchmarking we have had external people come in to make sure we got this right, we think that's very much in line with projects of similar size and scope.

And we have some experience with this, right, obviously with Nutri and Zoetis, although they were smaller transactions, Capsugel. Now the question is, where are you spending that money frankly? We're really spending that money in four major buckets. Let me just touch on each one. So one bucket is finance and in particular taxes. Think about it, we do business in over 150 countries, we have to have the tax structure in place to basically support two separate companies, if we so chose to do so. And so there is massive tax work that goes on.

Second area is manufacturing and supply chain. We're trying to do work obviously to align our manufacturing capabilities, our supply chain capabilities with the two businesses. Third area is regulatory, think about the hundreds and hundreds of dossiers that have to be re-registered into the appropriate new legal entities. And then the last item is systems, when you think about systems, think about enterprise-wide processes like order-to-cash, procure-to-pay. Think about internal management reporting, think about external reporting and all the work that needs to be done basically to support two businesses.

So the way we think about this, the way I think about this is the cost to do this is the cost of giving the Company a call option on optionality that it gives us the option, it gives us the ability to separate the Company if we decided to do so. And there is a cost associated with that option, just like there would be a cost, if you or I were to buy a call option today on a company. So that's kind of the numbers and what I wanted to make sure I got into some subledger detail on what's causing those kinds of numbers and those are the four major buckets. There's other buckets, but those are the big ticket items that are driving the majority of the cost.

David Risinger - *Morgan Stanley - Analyst*

That's very helpful. And so you mentioned that you will decide in 2016, whether or not to follow through with a split up. Could you just talk about the decision-making process next year including the timeline.

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

Sure. So what we've said is, we would make a decision by no later than the fourth quarter of 2016, which is consistent with what you just said. In my mind and Ian's mind, there's really four questions that we need to have answered, and we believe, I believe the answer to all four questions needs to be, yes. So we ripped through what those four questions are.

So one, are the businesses executing with excellence and are they operating extremely well inside the Company. I always say, operational cause equals financial effect, we get good operations, we'll get good financial effect. So, one is, are they executing with excellence inside the Company. Two, will they continue to execute with excellence on a standalone basis? So if we were to separate the companies, would they continue to perform in an extremely good way. Three, is there an opportunity to unlock trapped value? And so, if you look at some of the transactions we've done over the last few years, whether it'd be the Capsugel transaction, to the Nutri transaction or Zoetis transaction and we believe, I believe that we did a nice job of unlocking trapped value. So clearly, it's all about, is there a trapped value that we can unlock.

And then the fourth is, can we unlock that trapped value in an efficient way. So, clearly, can we do it in efficient way, so that we deliver maximum value to our shareholders and what does efficiency mean? It means the things like we look at tax, what the tax impact of a transaction like that as an example. But those are the four questions, the answer to all four questions needs to be yes, right. Really run the business as well inside the Company, make sure they are in a position to run well outside the Company, identify trapped value if it's there, and then can we execute and realize and deliver, unlock that trapped value to our shareholders.

David Risinger - *Morgan Stanley - Analyst*

And so then, a couple of things that maybe you could address. So I'm thinking three challenges that you're probably working to address as you consider the spilt. So, one of the issues would be boosting the pipeline more for the Innovative segment, addressing the tax challenges that you mentioned just now and then also addressing the cash issue on the Innovative side since it doesn't have the cash flow of the Established Products business. So, maybe you could just provide some more color on those three to help us understand what you need to tackle on those fronts.

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

Sure. So on Innovative business, let's say, the way I think I'll answer this is the Innovative business right now is performing quite well. We've got strong growth in new products, I'll come back to this, strong growth in in-line products and quite frankly that business when it's performing like this is highly profitable and throws off nice cash. I mean, this is very good business.

Last quarter, we had strong growth, the Innovative business if you take our entire Innovative businesses, Global Established Products, Vaccines, Oncology and Consumer, I mentioned before with $6.6 billion, they grew 17%, GIP grew 8%, Vaccines grew 52%, Oncology grew 36% and the nice thing about that it was driven by new products, Prevnar 13 Adult, Ibrance, Eliquis, Xeljanz, all of which are early in their life cycle.

So our job obviously is to crank that keep that momentum going on a going forward basis obviously for as long as we can, but that's a new entry for us. When I talk about operational revenue growth for Pfizer, it's the third consecutive quarter, so last quarter was the third consecutive quarter where we had operational revenue growth 1% for the quarter, 2% year-to-date. So we had it in Q1 and then in Q4 of 2014, I think we had like $9 million, but even though I hadn't had before I took it.

So three consecutive quarters now of operational revenue growth. And the Innovative business has been a really strong performer with products that are all new products that are early in their life cycle. So from my perspective, we continue to do that and then combine that with advancing our pipeline. And I think the profitability and cash flow of that business will be very good.

In terms of taxes, we've given guidance this year for a tax rate of approximately 25%. We have stepped that rate down since the Wyeth acquisition, every year by about a point. When we did the Wyeth acquisition we stepped it up, I stepped it up to 30% and we have been stepping it down a point every year and that's a 25% tax rate, a book rate, when the statutory rate all-in is 39% and change, federal it's 35%, take a blended state rate, it's 4% and change.

David Risinger - *Morgan Stanley - Analyst*

Well, let me congratulate you because I learned recently and I don't cover Roche, but Roche is based in Switzerland and Roche also has a 25% tax rate. So I found that to be quite interesting. Congrats on getting the tax rate down.

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

Thank you. The context for that is the statutory rate in Switzerland is 15% just to help with that. But, so we've got a statutory rate now of about 25%, we've taking it down a year that's good tax planning. Our job going forward is to continue to do good tax planning. Now we have to always play within the rules of all the countries we do business in which we do, but we have a really terrific tax team and our job is to continue to do effective tax planning.

You didn't mention Established Products, but let me maybe I can just touch on that for a minute or two. If you look at our Established Products business I always like to look at the rhythm of the revenues. So if you look at the Established Products business, and you look at that rhythm what we've been trying to do there is, we have a business that's declining because of the LOEs and peri-LOEs through in that business, but within the business, there is pockets of growth, emerging markets, sterile injectables, biosimilars and some of our partnerships, in Brazil and China, Japan. What we've said all along is, what we want to do there is decelerate the decline, stabilize that business and ultimately grow it.

I think one of the nice things about the Hospira acquisition is I think it pulls that rhythm forward, because of the significant growth, growth opportunities that we see there alone and then combined between their business and our business. If you look at the Hospira business, look at their company, significant majority of their revenues in the US. One of the things we have the ability to do is leverage our global supply chain with that company. So, it will be the same rhythm, but I think we can accelerate, we can pull forward the time line of that business as a result of the acquisition of Hospira, I think it really strengthens our Established Products business.

David Risinger - *Morgan Stanley - Analyst*

But you had mentioned in your fourth one in terms of considerations of the Board next year. Can you unlock a separation efficiently and one of the things you mentioned was the tax implications of it, could you speak to that a little more?

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

Sure. So, let me just say, the context of that is any transaction that I do, any -- whether it's an M&A deal, it's business development, but anything that we do in every conversation, taxes is part of the conversation, right. So I use that as an example of making sure we can unlock it in an efficient way. So in terms of optionality, taxes plays a role, clearly in any transaction which would include an optionality transaction and there's various ways to potentially make a transaction efficient from a tax perspective. And obviously our job is to do that in such a way where it maximizes the after-tax return to our shareholders.

David Risinger - *Morgan Stanley - Analyst*

Got it. And speaking of taxes, has Pfizer's motivation to redomicile diminished somewhat in light of prospects in the next few years for potential Washington action on repatriation of ex-US cash and also potential tax reform after the next election?

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

So tax reform is one of these subjects that's near and dear to my heart, Ian and myself, we get down to Washington periodically, I'd like to think that we are part of the conversation that takes place down there as the debate on tax reform continues. You're all familiar with what the IRS did on September 22 of last year. The way I think about it is, they raised the bar, increased the degree of difficulty for companies to invert out of the US, but where our owners would have less than 80% ownership of the newly combined company, now it's less than 60%, which means a much bigger transaction. Our compass on business development hasn't changed. It's creating shareholder value, we say it's easy to do business development deals, it's hard to do deals that create value for my shareholders.

If you look over the last few years, and you look at what we've done on the business development front, we've done deals, small deals, we've done mid-size deals, we've done large deals and you look recently we bought vaccines from GSK, we bought vaccines from Baxter. We did Merck KGaA deal for the immuno-oncology, the PD-L1. We've done the partnership, the diabetes partnership with Merck for ertugliflozin, we did the growth hormone deal early in the year with OPKO. We bought Hospira, it's interesting, people say that's a mid-sized deal $17 billion, it's a big numbers, we did Wyeth which was $68 billion. So I think we've been in the full gamut on M&A.

I think going forward you should expect us to be agnostic to size that regardless of size of the transaction if we think it can create value for our shareholders then we'll pursue it. And the nice thing about Pfizer is, we have the ability to do a lot, we have a big balance sheet. We have lots of operating cash flow. We have a strong credit rating, our balance sheet it's a competitive weapon. So -- but my reaction is, we have been, we will be disciplined on how we deploy capital, hopefully you all believe that.

And if we think there's opportunities to strengthen the Company, we'll look for them. The one thing I should mention is, M&A in the Company reports to me, so it's not like I turn this thing on and off. We're looking at companies every day, if you were to come up here and name 100 companies I'd be amazed if we weren't looking at 99 of them. It's just, it's part of what we do every day, right in the sense, which is part of our portfolio management. The way we manage our internal portfolio is the same way we manage our external portfolio in terms of just looking at what are the opportunities there and what do we think works best for our shareholders. So, did I answer your question?

David Risinger - *Morgan Stanley - Analyst*

To some degree. I guess, just a follow-up, all else equal, if you do a re-domiciling transaction, you may have to pay up a little bit more to achieve a lower tax rate. And the question is how worth that -- how worth it is it to do that if suddenly you can take $50 billion in cash into the US in a year, because there is a one-time repatriation of cash and/or tax reform can occur in a couple of years, which then renders a re-domiciling transaction less valuable in hindsight.

So I guess the question is, how are you thinking about re-domiciling today when -- the wheels although very squeaky and slow seem to be moving ever so slightly in Washington.

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

I got it. I didn't answer that question, I apologize. So I think, first, we don't rule out anything. So in terms of, Frank, this kind of a transaction, that kind of the transaction, re-domiciling that, re-domiciling, I always start with, we don't rule out anything, kind of point one.

Point two, clearly right now, we're paying a lot of attention to the conversations on tax reform. I mean, it's very much percolating in DC these days, there is the whole Highway Trust Fund issue that's percolating getting funding for the Highway Trust, I think it runs out, I think funding runs out in December, but they've got to have another decision I think by the end of October on the Highway Trust Fund, but clearly there is a lot that has to happen in the fourth quarter this year.

So clearly in terms of anything that we are or we will consider on the business development front, tax reform is always on the radar screen and right now it's kind of beeping loudly on the radar screen, simply because of all the things that are going on. But let's go beyond the next quarter, because that's kind of a short-term answer. When we look at transactions, Dave, the way we look at them is, what's the value from an operating synergy perspective and what's the value from a financial synergy perspective.

And so to your point, one of the things we have to consider is, what if some of the financial synergy value were to go away. Would we still want to do the transaction, do you follow?

David Risinger - *Morgan Stanley - Analyst*

Yes.

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

Because what you are saying is in my words, Frank, no matter what you -- no matter what happens, let's say short term on tax reform, there's some continuing uncertainty unless something good would have happened on tax reform. So if that happens, great, but if you are me, you don't plan for that, right, you plan for it not happening.

So what we look at is, what are the cost synergies, what are the operating synergies, that I'm going to get no matter what the tax environment is. And then what are the financial synergies, which we hopefully we get, but maybe we don't get some or all, because of what happens on tax reform. And then based on that kind of analysis and based on, listen, here is the stuff we know we're going to get, here is the stuff we may not get, do we still think that there is an opportunity to create value and that's how we look at it, that's how I discuss it with the Board. We literally break it out in piece parts, because to your point, there is some uncertainty around our financial synergies.

Maybe one other point on this and then I'll stop. We were involved in trying to get a re-domiciling transaction done a year or so ago. Everybody is familiar with what we're doing over in the UK. And we wound up not getting that transaction done. That transaction didn't get done for one reason and one reason only was price, we couldn't agree on price. In retrospect, if we had done that transaction, the new rules would have really wreaked havoc on that transaction. So, you live and you learn and going forward, we'll make sure we look at these things really surgically in terms of cost synergies and financial synergies.

QUESTIONS AND ANSWERS

David Risinger - *Morgan Stanley - Analyst*

Great, that's very helpful. Let me pause and see if there are any questions from the audience. Yes, there is a question here.

Unidentified Audience Member

You enumerated four items that you wanted to be able to tick off of as yeses in terms of separation. The second one was can these businesses continue to execute with excellence on a standalone basis, what would change in terms of execution as you separate that would cause execution to change?

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

Very good question. The short answer, I believe to that is nothing should change. Just to be crystal clear, if you say to me, Frank, if you just think about kind of the momentum of the business, the rhythm of the business, it's performing well on it, inside the company, will it continue to perform well outside the company? My intuition says, yes. My intuition says, yes.

That said, I never take anything for granted, I just don't. So what are some of the things that we'd have to do to make sure what I just said to you is absolutely true. There's a lot to be done, we are going to make sure the capital structures of the company, each company is set up correctly, right. What's dividend policy going to be, how we're going to handle debt, what's buyback policy is going to be, right. There's a lot we do as an enterprise today, because remember we deploy a lot of capital every year. I think one of the keys to this question is to make sure we get the capital structures of these companies right, and there is the whole tax planning aspect if we were to do this relative to how do we make sure, we maximize tax, minimize tax in a sense maximize the after-tax return within the rules. So there's a lot of that that I consider as part of this.

And then there is all the work I talked about, making sure that we have an ERP system, making sure we have the right systems infrastructure, making sure the logistical support all those work areas, they got to be in place, right, because it's always about day to day blocking and tackling, it's always about executing on the business. So but intuitively, I'd like the answer to be yes, and you would think why you asked me the question, but there is a lot that could not be ready. So our job obviously, and most of the things I alluded to BT works for me, tax works for me, manufacturing is one of my colleagues and regulatory is one of my colleagues, but there's a lot of pins we need to knock down to make sure we have that right. They work really well now. Our job is to make sure that really work well, if we separated the Company.

David Risinger - *Morgan Stanley - Analyst*

And just a follow up on that. So, historically what we've seen as investors is, there have been greater dis-synergies associated with breakups than originally realized in a number of transactions, in med tech and in other areas where companies will announce a plan, break up and then all of a sudden when the details come out it's suddenly, oh my God, the tax rate is a lot higher for this entity or oh my gosh, the stand up costs and the build up as a new entity are greater. And so I guess, beyond the internal spending that's going on, how do you think about prospective dis-synergies?

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

Sure. So just a couple of comments, and I'll make sure I answer your question. So one, the numbers I ran before, that $300 million to $400 million, the low billions, think about those as one-time cost to create the option. So think about a one-time cost, kind of compartmentalize those.

Then to your point, the question becomes, Frank, what about, I will call it, the dis-synergies going forward? So if you have two companies, you need two CFOs, you need two controllers, two General Counsels, so forth and just kind of the obvious dis-synergies. We have a lot of practice in this, right, we've done some of this. We did Zoetis and have all kinds of analytics on this based on everything I currently see. My answer to the question is, it'd be immaterial. And let's see it as having a material impact on the Company. No negative material impact on the going forward Company.

David Risinger - *Morgan Stanley - Analyst*

Great. We are out of time. Frank, thanks so much for your time.

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

Thank you all for your time everybody. Bye-Bye.

David Risinger - *Morgan Stanley - Analyst*

And thanks for joining everyone.
