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EDITED TRANSCRIPT

PFE - Pfizer Inc at Wells Fargo Securities Healthcare Conference

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QUESTIONS AND ANSWERS

David Maris - *Wells Fargo Securities - Analyst*

I am David Maris, specialty pharmaceuticals analyst with Wells Fargo Securities. Thank you for joining us for our keynote speech today with the CEO of Pfizer, Ian Read.

Before we begin, I want to read a disclaimer. Before we start, I'd like to remind you that this discussion will include forward-looking statements, that actual plans and results could differ materially from those expressed or implied in the forward-looking statements. Factors that could cause differences are discussed in Pfizer's and Medivation's SEC filings.

Also, the discussion of our pending transaction -- or Pfizer's pending transaction with Medivation is for informational purposes only and is not an offer to purchase nor a solicitation of an offer to sell shares. We urge you to read the tender offer -- or Pfizer urges you to read the tender offer documents filed by Pfizer and the solicitation recommendation statement filed by Medivation on August 30th, 2016, which are available free of charge on the SEC's website because they contain important information.

Our keynote speaker needs no introduction as the Chief Executive Officer of Pfizer, which is the world's largest research-based biopharmaceutical company which discovers, develops, and manufactures and markets a broad portfolio that spans the entire spectrum of human and animal health products. Ian Read is also a member of the Company's Board of Directors.

The timing couldn't be more perfect for this discussion. And we're going to focus a lot of the discussion on the macro environment, but we'll also focus on Pfizer's present and Pfizer's future and also the future of the drug industry, because we are at an important crossroads.

So, I'm going to join Ian on the stage, but thank you for everyone's attendance and attention.

Perhaps as a first question, we can talk a little bit about the pricing environment and the pricing debate that's been going on recently. What do you make of all of this? Is this a symptom of a disease, or is it just a symptom of some outliers that are getting their wrists slapped?

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

Well, I think there are two things going on. Number one, there are outliers who are getting their wrists slapped. But there's also a -- it's a problem that's occurring because the average consumer can't understand the pricing of pharmaceuticals vis-a-vis the pricing of their MRI or the pricing of their hospitalization, because they don't see the cost of an MRI in their insurance, but they do see their co-pays.

So, what is really activating this discussion in the last few years has been the transition partly caused by Obamacare. But it's been this transition of a system where PBMs were formed along with other players, intermediates, to negotiate volume discounts or discounts for then payers, who were smaller and needed an intermediate.

And the prime purpose of that was to ensure efficiency in the purchasing process. And there were very small rebates, modest rebates, that were mainly either used to reward the PBM for its function or have those -- some of those rebates go back to the insurer.

Now as time has passed and the PBMs and the insurers, and insurers have owned PBMs, the demand for rebates have increased to ensure access of pharmaceutical products on formularies. So, as -- and the structure has changed so that you get tiered formularies.

And the formularies are now also beginning to be used as a way of avoiding risk. As you can -- as insurance companies can no longer change their pricing according to preexisting conditions, co-pays are now a way, or deductibles are now a way, to avoid patients you don't want because they're too expensive.

So, what's happening is the rebates have been accelerated. The rebates are required to ensure you have a position on the formulary, i.e., that you can get access for future patients for your product. And ideally those rebates are going back to lowering the co-pays.

That's not what's happened. The rebates are being paid and the co-pays are going up. So, now we have this perfect storm where the consumer sees the pharmaceutical price increase, which is some cases is inflated and not -- and from outliers, and then assumes that's happening everywhere. And they equate these price increases with their huge co-pay or deductible increases.

And this is a debate which is ripe for discussion. And we're going to have that discussion, I think, over the next eight or nine months. And I think that it behooves all of us in the system, both insurers and the hospitals and ourselves, to look for a better system where the consumer can understand the relative values of what they're paying in the healthcare system.

David Maris - *Wells Fargo Securities - Analyst*

So, one of the questions that I asked a company yesterday was is this -- and it's a trigger term, I guess, of bribery. Is it a bribe for a drug company to pay a rebate just to get access? But the way you describe it, it's more of like a racket where a captive group of patients can really only get access to this if you pay that. I mean, it sounds like a -- how does it get solved?

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

Yes, I wouldn't describe it as a racket. I would describe it as an outflow of a process that was genuinely supposed to help lower healthcare costs and now have become -- lower healthcare costs by improving purchasing efficiencies and now has become a process whereby access is being decided by players who aren't the physicians and aren't necessarily the insurance companies.

And they're deciding that access based on purportedly lowering the cost to healthcare systems, but in reality there's a high influence also of the rebate level which influences that decision. And I think we need better rules.

David Maris - *Wells Fargo Securities - Analyst*

So, if somehow the rebating were eliminated, what sort of impact would that have on your business?

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

I would -- I sort of haven't thought deeply about that because I don't want to see it happening. But if it was to happen, basically I think the -- in the ideal world the utilization of drugs should be decided, or any procedure, should be decided between the patient and the physician. And if you get enough accountability in the system, the patient is accountable also for the use of those resources, and you shouldn't have rebates in the system.

The rebates should have been there to provide the cost and the small profit margin of a PBM to function. And now they've become more than that. So, I think to absence of rebates would be healthy for the system.

David Maris - *Wells Fargo Securities - Analyst*

So, if we think about how care might look going forward, was there anything in the -- actually stepping back, some of that is used by some to say that a single payer system will solve that. But it also takes away -- it takes someone further away from care, from their physician to the individual. What do you say to someone that says, well, you've just given ammunition for a single payer system?

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

Well, I think what we're talking about is how do you ensure that the value is being delivered to society from hospitals, insurers, and pharmaceutical companies? And certainly in a one payer system there are no insurance companies.

If you look at Europe, I mean, they're called sick funds. But in a one payer system the insurance companies go away and the PBMs go away, but then who decides your access is a government. And the argument for that would be, well, if you don't like your access, you can vote your government out. But that's a very blunt instrument because you vote for governments on things more wider than healthcare.

So, I prefer not a one payer system, but a private system where you individually have enough transparency and understand your healthcare policy so that you can make choices on what type of drug coverage, what type of health coverage you want, and what's your skin in the game on accountability, your health, your exercise, a more transparent marketplace system where I think you get better value for your money.

David Maris - *Wells Fargo Securities - Analyst*

Was there anything in the Clinton healthcare proposal or draft, that one-pager talking point, that you thought you know what? This is a good idea, versus was there anything in it that you said, well, this is just unworkable, this would be a disaster for the industry?

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

Well, I think in its totality it would be very negative for innovation, in its totality. Now, you can always pick out one thing like -- that would appeal particularly to your industry like limited co-pays. But you can't just pick one thing. It's a whole system. You can't pull out one string without pulling the whole jersey undone.

So, I think overall I think the Clinton approach to healthcare drives you to a one payer system and drives you to rationing, drives you to a place where most consumers don't want to be.

David Maris - *Wells Fargo Securities - Analyst*

So, when you think out two or three years, is there anything other than those types of proposals? Or do you think that we're on a collision course for price controls, or do you think that the system will self-correct itself?

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

No, I don't believe that we can see price controls occurring in the United States. I think a lot depends upon -- the speed of what happens and where we go depends upon the composition of the senate and the house and the presidency, but I think there are enough institutional forces in the United States to ensure that we don't go down a European route.

Probably a key detonator of some type of change may be the need for the reforms to fix Obamacare, or the Affordable Care Act, shall we call it, as more and more insurance companies pull out of the exchanges so there's no competition in the exchanges and the premium rates go up and the subsidies go.

Clearly there's going to be a solution, and in that solution there's going to have to be a dialogue with the insurance, with the pharmaceutical companies. There's going to be, I think, a lot of discussion around that. So, I think we are going to have to modify the system.

How exactly? It's very difficult to describe right now, but I think there is going to be a movement in this to increase overall transparency and to get a more efficient market-based system.

David Maris - *Wells Fargo Securities - Analyst*

How much of a hindrance is tax in this entire situation? I know it's one of your favorite topics. But with corporate tax reform, as you engage the legislators about what's going on in healthcare, is there any interest in overall tax reform?

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

Yes, I think there is interest. There is a realization that tax -- I'm not particularly worried about tax rate. If you're a domestic producer and you only sell domestically and you have no real major international competitors, tax is irrelevant. Tax is just part of your cost, and the consumer pays the tax.

But when you compete against companies that are not in your tax system, it gives them a huge advantage to either report higher profits or to take those profits and invest more in research, which is why you need a level playing field. It also affects your ability to buy companies or sell companies because of tax differential.

So, tax is a major complication in the business, and I think tax reform is essential to allow the US companies to have a level playing field. Hopefully when the new congress is formed and we have a new president, I think there is a lot of appetite to understand how to try and fix that.

David Maris - *Wells Fargo Securities - Analyst*

So, I mentioned to you at lunch that I kind of grew up in the drug industry. My late father was the CFO of a big drug company, Roche, and my brother ran Google Ventures, a sister who's a nurse, and it goes down the line. So, I have been surprised that over the last decade that pharma hasn't been able to articulate and connect to consumers the idea of what innovation has meant to their lives. Is that something that is changeable, or is it, no, it will never be changeable as long as people are paying out-of-pocket co-pays?

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

Well, it's a very interesting question on that. If you actually go to Asia and Latin America, you'll see a very high reputational index for the pharmaceutical industry where individuals pay out-of-pocket and they buy pharmaceutical products based on quality and brand, and there is less of government intervention in the marketplace.

You can't -- it is so difficult to explain the intricacies and the complexities of healthcare and healthcare delivery that it's not really easily subject to sound bites. And the industry has been reluctant to take on the huge expense of educating on a broad level and have concentrated their education, I think, on the Beltway and on political and medical elites.

And I think we are now at a stage where the industry has come together and realized there needs to be a major effort on educating the general population of what do they get from the pharmaceutical industry.

And my idea would be if you ask somebody in the street why do we have a pharmaceutical industry, they'd say, well, because without them there's no new drugs. Without the pharmaceutical industry, my children won't be protected. There won't be new therapies. My standard of living will

decrease. And yes, I want to support appropriately a vibrant, innovative pharmaceutical industry. You wouldn't get that today if you went out in the street, clearly.

And so, we need to start working on that. And I think you'll see that happen over the next two to three years from the industry. I mean, we already started. Pfizer did this, Before It Was a Medicine. I don't know how many of you have seen it on television. I hope all of you put your hands up. I won't ask, because I'll be disappointed if you don't.

But we spent a lot of money running this in certain states and nationally on Before It Was a Medicine. And it doesn't really talk about Pfizer. It talks about before it was a medicine what had to be done to get it to the person who's taking it, to try and begin that education process.

David Maris - *Wells Fargo Securities - Analyst*

You mentioned the better appreciation in the emerging markets. And even though it's not popular to talk about presence in the emerging markets right now just because of some global growth issues, can you tell us about Pfizer's commitment to the emerging market? How important is that to the growth over the next decade?

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

Well, for the Essential products division, it's a large component or a substantial component of their growth story, not so much on the Innovative side, because those markets still are very immature for the type of oncology and vaccine and specialty drugs we're producing.

But certainly for Essential Health it's an important market. I believe it's a robust market. We've always said it's cyclical. Growth in China, we're at the high 20%s. They're now down to mid teens, the high teens, depending who you are and where you are, but it's still a good marketplace where you can invest and you can get a good return.

And I believe that long term you have to be in the emerging markets and you have to be strong there, because this is where the growth is coming from globally over the next 50 years. This is where the real growth is going to come from. So, I'm very happy we have a strong presence in emerging markets.

David Maris - *Wells Fargo Securities - Analyst*

Are there any markets in particular that you're focused on, or is it several emerging markets? Is China a must-win?

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

China is important to us. India eventually, I think, will become a good market as they're willing to pay for innovation. But the markets that are important, of course, are the usual suspects.

It's Turkey. It's Brazil. It's Mexico. It's the big BRIC markets. Indonesia is a huge population base but difficult to make any headways in. But basically it's those BRIC type markets where you want to focus.

David Maris - *Wells Fargo Securities - Analyst*

And is the focus growing there organically since the organic growth for the overall market's so strong, or are you looking to deploy capital there as well and to acquire --?

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

Well, you buy if you can if you can buy at reasonable prices. We haven't been able to particularly find good local companies that are priced reasonably in the last five to six years. But I think that market may begin to open up, where local companies will be more available to be bought. But other than that, the focus is unit growth, organic growth.

David Maris - *Wells Fargo Securities - Analyst*

How important is -- if we can kind of pivot to the biosimilars for a little bit, how important are biosimilars to the emerging market story? But also, do you think that biosimilars are a seismic change as we think they are, or is this going to be more of a niche business, especially given Pfizer's size?

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

Well, I don't think they're necessarily that important initially in the emerging markets, biosimilars, simply because the healthcare systems, they don't use biologics to such a large extent as the developed markets. So, initially it's, I think, a developed market play.

I think it is a substantial opportunity. The extent of the opportunity is still, I think, to be determined, and it depends upon basically the type of marketplace the governments want to create. So, governments are interested in biosimilars because they see a budget impact which is positive. They have to be careful to maintain incentives for people to develop biosimilars.

So, to the extent that the governments try and pressurize biosimilars to becoming a commodity market with identical labels and no differentiation other than the quality of the manufacturer, which would play to our strengths right now, if they do that, then I think you'll tend to see a reduction in the level of investment in production of biosimilars.

To the extent that governments understand that it needs to have a return based on the cost, which varies between $150 million and $200 million to bring a biosimilar to market, I think you'll see a robust market with probably similar to sterile injectable type margins.

David Maris - *Wells Fargo Securities - Analyst*

And so, when it comes to leadership in that market, are you fully committed to be the leader in the market or among the leaders in the market?

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

Now we are. We have 12, I think 12 biosimilars. We have the big five under development. We are preparing to launch Inflectra -- the biosimilar to J&J's product this year. And we intend to be big players in it.

David Maris - *Wells Fargo Securities - Analyst*

Great. So, can we talk a little bit about other things in the pipeline that you're most excited about? I mentioned my family history of just really embracing the innovation side of pharmaceuticals. When you think of things that are products -- pipeline products that really will make a difference and make a difference at Pfizer as well, which are those? What come to mind first?

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

Well, the first one, which is a launch but still a pipeline product, is IBRANCE, where there's huge growth potential that we've invested in as IBRANCE moves further back in the treatment paradigm on breast cancer, and then there's outside of breast cancer opportunities for IBRANCE, a global

launch of IBRANCE and then follow-on as we understand more and more about the CD cell cycle. And we are investing resources in that to have follow-ons. So, I think that IBRANCE remains right now excitement there for us in oncology.

The second wave will be immuno-oncology, where I believe the future is in triplets and doublets, and turning cold tumors to hot tumors is what we internally use, or they explain it to me so I can understand it. Basically, a lot of the immuno-oncology therapies don't benefit the majority of patients because the tumors are hidden from the immuno-oncology approach.

And so, one thing you need to do is look at using, for instance, bispecifics or oncolytic vaccines, or even drug conjugates to expose those tumors and prepare them for the ability for immuno-oncology to be active so you can take -- and then when you do that, you also want to see how can you broaden the immune response by using more than PD-L1, by using other checkpoint inhibitors.

So, it becomes a game, I think, or a play of PD-L1 with CTLA-4. That CTLA-4 is little -- has a toxicity problem, so what other agents are there there that can do that? And we have 10 immuno-oncology assets between biologics and small molecules. We have avelumab, 4-1BB, OX40, CAR-T technology, oncolytic vaccines, small molecules in IDOs. So, we run the gamut.

So, I think the successful company in the next decade is going to be the company that can capture efficiently the patient on a combination of regimes so that you have a price for the patient and not a price for each individual drug. So, I think that's our vision of where immuno-oncology will go eventually and why we believe that we're going to be very successful in the next phase of immuno-oncology.

If you look at vaccines, I'm really excited about our C. difficile vaccine. It's a huge, huge unmet medical need. Thousands die from this condition, and I think our vaccine is going to be a really important therapy in that area.

Further back is Staph aureus. It's an important vaccine. There are regulatory problems in fully developing it. Is the FDA going to accept one trial in back surgery? Are they going to allow, because it's a microbe, that that evidence will be used for all surgeries, or are they going to say no, no, no, in their purist attitude -- or perhaps their scientifically purist attitude, I would say, you have to prove it in every surgery? If you have to prove it in every surgery, it's impossible. The cost is impossible to develop the vaccine.

So, that's a little bit of regulatory work we have to do there. But, C. difficile and Staph aureus are very important in our vaccines. Our oncology I talked about, our immuno-oncology information. XELJANZ has got really good data in ulcerative colitis and in psoriatic arthritis. We're going to launch it in Europe. I think there's a lot of growth left in XELJANZ.

And then behind that, there is a whole JAK constellation which will both work in rheumatoid but also in dermatological conditions, which we think they -- we've got the JAK -- we've got a lot of science in the JAK franchise, so we understand what JAK-1, JAK-2, JAK-3 does, what the combinations do, and how we can get more selectivity. So, I'm very optimistic in that area.

Rare diseases, where we've got a Duchenne's and we've got work in with Spark, which is exciting. And then in neuroscience, we have a very interesting portfolio of a BACE inhibitor and a gamma-secretase.

And I don't think we're that far behind in the BACE. It depends on the clinical trial results. It depends on what happens with Merck's trial in moderate. Will BACE work in moderate, or does it have to be used in mild? If it has to be used in mild it levels the playing field again and our BACE is competitive on timelines.

And then the question becomes -- in that marketplace I don't necessarily think there's a first mover advantage. I think you're looking at treating people for 30 years as a -- if you have tests to show they're susceptible to Alzheimer's. And it's going to act over -- they're going to have to use a prophylactic treatment over 30 years, so the premium is going to come on not just efficacy but exquisite safety and side effects. So, I think the market will be very permeable to entries that come in later that have a better profile with the same efficacy.

So, that's a sort of quick run-through of why I'm excited about our portfolio.

David Maris - *Wells Fargo Securities - Analyst*

Yes, a number of exciting areas. One of the things that comes up, and I'm almost tempted to see if it wouldn't come up in Q&A at all, but is the idea of a split up. Will it happen? Won't it happen? And I listened to a recent -- the quarterly conference call and everyone was trying to preempt it by saying, well, a recent meeting made me think that you definitely aren't doing it, and then someone else would say, well, I think it's going on. How should an investor think of it either way? Is it just splitting a cake or is it --?

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

No, I think they should think about it in the four conditions that we laid out, which was are the business working well in Pfizer, could they work well or better as a standalone, is there trapped value, and is there a tax efficient release of the trapped value.

So, I think we believe today -- and no decision has been made. We haven't had our discussion with the Board. We're still preparing our recommendations. But clearly I think the -- I'm less enthusiastic about there being trapped value and that there is a tax efficient way of getting at that trapped value.

So, then it comes back to really would a split alter the cash flows of the companies for the present shareholders? So, if the shareholders -- I gave them two shares instead of one, are the cash flows altered for them? And I think the fundamental question there is, are there things that each division could do on their own that they can't do as part of Pfizer?

And that's what we're really digging into over this operating cycle, to try and answer that question to the Board. Are there -- are we inhibiting some action by the Essential products or the Innovative products by being part of Pfizer?

David Maris - *Wells Fargo Securities - Analyst*

So, I think that's an important distinction, because I think some people make the -- some investors make the mistake of thinking that, when you say, well, if we decide not to do it, it may be reflective of a belief that there's no trapped value. But that doesn't mean you're saying the shares or that part of the business isn't undervalued. What you're saying is that, no, the dissynergies of separating or the distraction that might be there, that it won't result in materially higher cash flows but it still may be, in a public market, undervalued.

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

No, I think our cash flows are undervalued, stop, right? So, I think the proof has to be do you believe that you can change the cash flows by splitting the companies up now? And that's what we're looking at, and do you believe that management can be as efficient inside as outside? Can I bring -- can Pfizer bring as much pressure to bear on optimizing those businesses inside Pfizer as those businesses would have if they were on their own? And are the risks of them being on their own greater than the benefits of the pressure that can be brought to bear?

So, I think we are good stewards of our assets and good leaders of our assets. So, I think the internal focus is there, so I'm more looking at are there some -- are there barriers to doing things by the Essential products division that being part of Pfizer would inhibit them?

Now, certainly you could postulate that other companies who are -- will be competitors to the Essential business may have a different oversight because they're smaller from the regulatory authorities. I don't know if that's true or not, but some people may postulate that, being in that space, you get a lighter bar placed on you to meet obligations.

I don't really think that's a valid argument. I think the regulators are pretty tough on everybody. I don't really see that there's any advantages from the point of view of regulation. So, it really comes down to is there advantages on risk taking, speed, willingness to take risk on at-risk launches, etc., etc.

David Maris - *Wells Fargo Securities - Analyst*

Organizationally and corporate culture wise, are those currently a challenge, people taking risk? Or how do you combat bureaucracy, given how large Pfizer is?

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

Well, we do it -- I would say every company always struggles with how do you empower individuals to give their best performance. In a smaller company, where everybody knows everybody and the objectives are clear from the CEO down the guy who's shipping the product out, it's a lot easier to energize the organization, undoubtedly.

How we try and get round that is we've split our businesses, our research up, into research units with individual objectives with individual accountability, and we've split our businesses into Innovative and Essential. And inside the Innovative, we have an oncology unit, a vaccine unit. So, we try to create small units inside those businesses that have that same urgency and the same ability to move quickly.

David Maris - *Wells Fargo Securities - Analyst*

Well, I do want to give the audience an opportunity to ask questions. So, I have more questions, but let's see if there are any questions from the audience. If so, just signify by raising your hand. There are microphones walking about.

Well, good. I'll go to one of the other pages of notes that I have. So, you mentioned the FDA, that on a regulatory basis you don't see a big difference -- or there doesn't logically seem to be a reason that smaller would have a better regulatory timeline through an FDA or something like that.

Maybe if you can just comment on is the FDA working? Is it getting more challenging? Is it -- are they afraid of their own shadow? Are they requiring much larger studies? Is that part of the reason that there has been a criticism about innovation at pharma, that it's actually, no, the -- first, the science wasn't mature enough that we're now seeing come to fruition. And the second is that, well, no, the FDA went through a change where it required more of drug companies.

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

Well, I think there's been a market change or the beginning of a good change in the FDA's interaction with the industry through PDUFA IV and PDUFA V, where we've negotiated with them and discussed project management and ways of them being accountable for timelines and better interaction between us. So, I think that's contributed to a speed up in some of the innovative activities.

But undoubtedly the FDA is an agency that is foremostly focused on patient safety, and I believe they'll always put that in front of innovation. And so, it tends to be an organization which is slower than the industry would like and more bureaucratic. And that's just the nature and the cost of regulation.

How we improve that is what we're trying to do through PDUFA IV, PDUFA V, PDUFA VI, making sure the agency has money, making sure they have good project management, trying to help them modernize their regulatory regime.

So, in a society that wants regulation and puts a premium on safety and where the FDA gets investigated by every different body there is, clearly they're going to be conservative. And one way of getting around that is having a more adult conversation, perhaps putting patient perspectives into the FDA, which they're trying to do, and have patient groups give the FDA more coverage on taking risk.

David Maris - *Wells Fargo Securities - Analyst*

One of the things that surprised me about the Clinton proposals was something that the FDA -- 10 former FDA commissioners came out against previously was drug re-importation. Is that dead on arrival? I mean, is that -- it sounds like such a safety issue if we're going to re-import drugs from other countries with the idea that they'll be much lower priced for patients, or can that be done safely?

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

Well, number one, I don't think it can be done safely. You lose control of your distribution system. Number two, it won't work because the other countries won't let it work.

I mean, what do you think Canada's response is going to be if they've negotiated because of their lack of willingness to support innovation and our government's acquiescence in trade agreements to let them get away with that? They've negotiated in a business that has sunk costs and they need to gain revenue of volume. They're been able to negotiate a lower price.

What do you think their reaction is going to be if suddenly the US says, well, we're going to import all the product there is in Canada? They'll shut the border. They're not going to be without medicines. I mean, it's just not a feasible solution.

David Maris - *Wells Fargo Securities - Analyst*

So, unsafe and unfeasible.

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

Unsafe and unfeasible.

David Maris - *Wells Fargo Securities - Analyst*

So, one of the things that come up in kind of the same vein is that the drug industry subsidizes the rest of the world with lower prices elsewhere. You mentioned trade. And one suggestion one time was shouldn't there be just GDP -- per capita GDP-based pricing, and it would never happen because of an immense trade problem of negotiating it. But does that solve the problem? And what do you say to the criticism of, well, we're subsidizing lower prices elsewhere?

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

Well, it's a really great idea, except which country is going to be the reference? Which country sets the price that everybody else takes their GDP off? So, is it going to be a monopolistic purchaser who sets an artificially low price, or is it going to be a market-based system, if we can still find one?

So, the US is still sort of a market-based system. So, you would say, well, if you could do a GDP flex off the US, it may be a really good system. I don't see the rest of the world agreeing to that, so I think it's dead on arrival.

I think what you need is you need -- and this is what's so paradoxical about what went on with the Pacific Trade Agreement, that you have one part of the pooled spectrum saying that the US government is negotiating too hard for intellectual property, but that same group is saying why are we letting them free ride on our innovation?

So, strong patent protection, strong intellectual property through trade agreements allows more of the burden of innovation to be borne globally and not just by the US consumer. So, I think the solution is through very strong trade agreements where the US uses its marketplace to say it's not acceptable for you to free ride on our innovation, which means strong patent protection and means pricing which is not negotiating with a gun to your head.

David Maris - *Wells Fargo Securities - Analyst*

So, speaking of pricing -- oh, there is a question here. Why don't we take that first?

Unidentified Audience Member

I did have a question on pricing, and you introduced it. Of course, the topic there is unfair pricing. I'd just like your opinion, and maybe of your peers, can a price be unfair by definition? Or, well, it's the price. It's set. And unfair or fair really doesn't apply. I'd to ask what you think.

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

Well, I think that you can have a temporary situation of extraordinary profits. I'd avoid the word fair or unfair. I think you can have a temporary position in any market given the situation.

But in a marketplace, if you're making extraordinary profits, it incentivates competition and brings more -- look at the Hep C situation. Rapidly you've seen a huge decrease in the net price of those products because of the competition comes in.

So, I think it is a legitimate question by society to say how do we ensure that, because we're giving you a patent, you don't enjoy excess profits beyond what's necessary to stimulate your investment? That's the conundrum, rather than fair or unfair. So, that's the way I'd put it. I think you've got to look for ways of affecting market mechanisms that ensure there's competition, and competition controls the value society pays.

I think that you don't -- the way you reduce cost to society is by having more products in the same category, because -- so, the way you get more value is by having more money in innovation, which is what we would do if we had good intellectual property and we could recover more of our value in Germany and around the world. It would allow a lot more money for innovation, which would allow more products, which would, through competition, lower the cost to society.

That's been a -- my economic bent is how I answered the question. But --.

David Maris - *Wells Fargo Securities - Analyst*

Additional questions? So, in the past year, maybe year to three years, has your view on M&A or business development changed at all? Does it change following the Medivation deal?

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

I think our view on business development has always been we'll do business development where we can take the resources we have or the resources we can access and get a higher rate of return on it than we're getting today with those resources.

So, it's certainly based on the categories you're in, because that's where you can probably get more value which you can leverage over your knowledge base and your distribution base. So, we've done those type of acquisitions. I've tried to do larger acquisitions which had both operational, pipeline and financial aspects to the deal.

That has not been possible in this environment given the reaction from the US government. So, I don't -- I think big deals that will be cross border probably need to wait until we get a read on what the tax situation is going to be.

David Maris - *Wells Fargo Securities - Analyst*

I wanted to ask you about your peers and also about Pfizer in the same way. Of the peer companies, whether it's just large companies or large pharmaceutical companies, which of them do you admire and for what? And what do you think they look at Pfizer and say -- and answer that same question?

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

Well, I admire -- all the big pharmaceutical companies have great science and good resources and good colleagues. We attract a high quality of people in the company.

I would say what personally and obviously in a -- and you'd expect me to say this. I think what defines the difference between companies is the culture inside the company. And that's what will make us more successful, or make some companies less successful, is the culture. And we spend a lot of time at Pfizer -- not something I get asked a lot by investors, surprisingly enough, more in the UK than the US, actually, about what is the culture of the company.

And I think we have an ownership culture which says we want you to act as if you own the business. We want you to win in the business. N stands for no jerks with discussed behavior, I is impact, and T is trust. So, I'm trying to create a -- inside Pfizer a culture that people want to be there. They know why they're there, and they know the objectives of the company and they treat the company as if it was their own money. Ownership, accountability, I think that makes a huge difference.

David Maris - *Wells Fargo Securities - Analyst*

It's funny. I ran into -- where we're located, I ran into a very famous entrepreneurial billionaire investor who had sold a big box company outside our building. And he asked about a drug company that we currently don't cover, and I said, well, look, I can't answer that, but I will say they have a wonderful culture. And he said, in very colorful language, forget culture. I just want winners. I want people who wake up wanting to kill and win. And I walked away. I said, well, that's really not -- part of that sounds great, the will to win. But how do you engender other --?

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

Yes, how do you harness it in a big company? I mean, if you've got a -- as I say, if you've got 1,000 people in the company, then I think it's easy to say you want that will to win and you want that enthusiasm, and you can get them all together and get them all aligned. But when you've got 100,000, you have to have a culture and you have to have people talking about the culture, because that's the only way you can pull those leaders.

David Maris - *Wells Fargo Securities - Analyst*

How much time do you spend outside of the US in the field? And what do you do on those trips? What are you looking for? What are you trying to learn?

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

I spend 120 days, roughly, in New York. The rest I spend outside, either in foreign trips or unfortunately Washington. And when I do business reviews outside, I'm -- normally I spend some time trying to meet political influencers in the country, and then I do internal reviews.

And all I'm really looking at is the quality of the management. Is the environment running the management, or is the management running the environment? Does our management understand what's happening? Do they have strategies? Are they working towards a solution?

I can understand if they're got bad results. I can understand if they have troubles. I want to know do they have strategies and plans to deal with the situation they have. If they do, then I think that -- I leave feeling really pleased that we have a competent team.

David Maris - *Wells Fargo Securities - Analyst*

Any additional questions? Well, with that, I want to thank you very much for your participation. And thank you, everyone, for your attention.

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

Thank you.

David Maris - *Wells Fargo Securities - Analyst*

Fascinating discussion. Thank you very much.

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

Thank you very much.
