PFE - Pfizer Inc at Bank of America Merrill Lynch Health Care Conference

Event Date/Time: May. 10. 2011 / 6:20PM GMT
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PRESENTATION

Gregg Gilbert - Bank of America Merrill Lynch - Analyst

I’m Gregg Gilbert. I cover specialty pharma and now also US major pharma. We’re very pleased to have Pfizer participate this year and very thankful that Dave Simmons, who runs the Established Products and the Emerging Markets businesses, has joined us. I’ve asked him to make some high-level remarks so that we can spend most of the time taking your questions and Dave’s answers.

And without further ado I’m going to turn it over to Dave to kick it off and get your questions teed up. I’m sure you have some.

Thank you so much for coming, Dave.

Dave Simmons - Pfizer Inc. - President & General Manager, Emerging Markets and Established Products

Thank you, Gregg.

A couple of housekeeping items before I start. There will be forward-looking statements in this discussion, and actual results may differ. And, for those listening on the webcast, I will not be using any slides with my remarks.

I’m here to discuss Pfizer’s Established Products and Emerging Markets business units, so let me start by giving some information and strategic priorities for each of these businesses.

Established Products consists of post-LOE products in developed markets. Developed markets are US, Canada, Western Europe, Japan, Korea, Australia. An imperative for this business from 2009 when it was started was to take a portfolio of legacy brands that were shrinking 18% the year before, stabilize that deterioration effect, expand the portfolio beyond Pfizer’s legacy brands and ultimately get to growth in [2007]. This is without LOE products shifting in from other business units. This is without live products coming in. So we’re not counting any of that.

In our Q1 results we announced sales from Established Products business unit of $2.367 billion, and on that original basis of that core base of products plus the growth initiatives and portfolio expansion we were running we announced that we got 7% growth. So we were very, very pleased with that level of growth in the first quarter of 2011. It let us honor that marker and commitment we made back in 2009.

Now, the strategic priorities for Established Products are portfolio expansion to continue this trend that we’ve seen in the first quarter; building capabilities that help us maximize what we get from the legacy brands and move beyond that into multisource products; and getting the cost structure right. So for EP this is the primary three strategic objectives we’re pursuing.

Now, moving to Emerging Markets a second, Emerging Markets consists of all biopharma products -- core, innovative and established products -- in emerging market countries around the world. Now, this is 70 countries where we have operations that we sell all of our products into. And this includes 19,000 employees, which has a lot of field force in emerging markets. These are still branded environments. So the nature of these two businesses are different. I’m trying to give you a flavor of the branded side of Emerging Markets.
In our Quarter One earnings release we announced that Emerging Markets had achieved $2.178 billion in sales, representing 8% growth for the quarter compared to Q1 2010. Now, there was a one-time Prevnar order, an institutional order in Mexico in 2010 at the beginning of the year. When you adjust for that one-time effect the growth rate for Emerging Markets in the first quarter was 12%. So we were very, very pleased with the first quarter results out of both of the businesses.

BRIC-MT, and MT is Mexico and Turkey -- we add that to the traditional BRIC markets -- represents 47% of our total Emerging Markets business, and that in the first quarter unadjusted for that Mexico effect was 10% growth. This particular part of the geography is a strategic priority, a strategic investment priority and focus for us at Pfizer.

Another interesting and relevant point for Emerging Markets is that 42% of the sales in Emerging Markets are from the Established Products portfolio. And add to that that this off-patent segment of the Emerging Markets market is growing faster than the patent-protected innovative side of the business. It's already larger. So it's the largest part of Emerging Markets. It's growing faster. Its wealth is rising. It's a market segment that we need to participate in more actively if we're going to get the growth that we expect out of this business.

So the strategic priorities on Emerging Markets are to maximize the value of the innovative core products. We do -- we seem to have a bit of an experiential lag with products that are launched in the US and Western Europe, if we take Enbrel as an example. Now in a lot of emerging markets we're starting to hit the ramp-up of sales from products like this. So you have to look at the core innovative with a bit of a cycle lag historically. So we have to maximize these core products. It is what we do. We're very, very good at this. But we have to continue to execute well.

The second strategic priority is to expand our presence and offering in the off-patent generic sector. As I mentioned, the rationale for this is just the size and the growth of this off-patent sector. This is where a lot of the consumption patterns are coming from in emerging markets. It's critical for us to maximize the value creation in emerging markets to participate more fully in this area.

And our third priority is to empower our local organizations to speed decisionmaking and adaptation to local market constructs. For any of you who do business or travel or visit emerging markets you know that there is an extremely large variation in market constructs, even amongst the BRIC-MT markets. So a one-size-fits-all corporate strategy driven from the center will not maximize the business in these markets. We have to adapt ourselves into the local market constructs, and that's one of our priorities.

As I mentioned, BRIC-TM, and TM is Turkey and Mexico, again, is prioritized for investment focus. To give you some examples of things we've announced and that demonstrate this investment focus, in China we've been actively expanding our field force resources and expanding the number of large cities that we cover. From first quarter 2010 to first quarter 2011 we expanded our field force from 3,300 sales reps in China to a little more than 4,000. That's a 21% increase.

Another example of the investment focus is the partnership announcement we made with Teuto in Brazil that will allow us to more actively participate in the Brazilian generics market and should be a platform for us to expand and engage more actively in the other Latin American markets. Biocon and Aurobindo partnerships are examples of our work in India. Now, we are optimistic about the growth potential in emerging markets and our ability to actively participate in this growth and our ability to help more patients lead healthier lives.

So, with that, Gregg, I'll pass it over to you, and I'm happy to take questions.

Gregg Gilbert - Bank of America Merrill Lynch - Analyst

Thanks. These days I'm sure there are questions out there. I'm going to ask the first one.

One housekeeping item, though. The lunch right after this is over by the registration table and up those stairs -- obviously not for those of you on the webcast, though. We haven't figured out a way to do that yet.
QUESTIONS AND ANSWERS

Gregg Gilbert - Bank of America Merrill Lynch - Analyst

So, Dave, a lot has been made around the strategic review being pursued by Ian Read. Can you walk us through at least at a high level the complexity of -- well, let's back up. What are the potential options for the EP and the Emerging businesses in the context of a strategic review? Recognizing that you haven't made decisions yet, how would you frame the different possibilities for the audience?

Dave Simmons - Pfizer Inc. - President & General Manager, Emerging Markets and Established Products

Okay, Gregg, let me start with the way -- I'd frame this the way we discuss it inside the Company. The ELT and Ian Read have decided that we have an innovative core that we set. This is the research-based divisions, the specialty oncology, vaccines, primary care. And all other businesses outside of that innovative core will be evaluated for whether shareholder value is maximized inside/outside Pfizer or even if inside Pfizer variations of approach to the business that could unlock more shareholder value. So this isn't about getting to an outcome of separation/not separation. It's about what unlocks the most shareholder value.

Each business is looked at on its own, so it's not one big complex puzzle of all these businesses. Each one is looked at. The most complex analysis and evaluation is established products, as you pointed out. And the way in which we're talking about this is looking at the strategic importance of this business to the core innovative part of Pfizer and the strategic importance of the core innovative part of Pfizer to this business. That's lens one. Lens two is what is this business's right to compete and win in its marketplace? What capabilities does it need if it doesn't have them already to be able to compete actively and effectively in the market? And then the third lens is is there any financial value where it's undervalued inside Pfizer and the business could be more valued outside Pfizer? So each of the businesses go through those three lens.

On Established Products, if I go through a couple of points on this, and to express maybe some rationale why we say this is complex, if I take Emerging Markets as an example, we have field force and commercial infrastructure and country organizations where established products and core innovative products exist in the same sales rep's bag who's talking to a physician. So, if you imagine, okay, well, Pfizer, separate EP out. In those markets, what are we going to do, cut a sales rep in half? So it's going to be somewhat disruptive to engage in this.

So the question is we have to characterize the disruption effect or the disruption items that could occur, and then we go into the second question of how much value could be created from a more unconstrained Established Products business? And we're not there on that discussion yet, but you look at a kind of negative consequence of considering this, a positive consequence of considering this, and how do those two net out? And we have to get to a point where we see this clearly, we have a joint understanding and belief on this point, and then that'll lead us to a decision of what we'll do with the business.

Gregg Gilbert - Bank of America Merrill Lynch - Analyst

Are there other specific things that are intertwined, like manufacturing and other specific points to be made, and how difficult are each of those to (multiple speakers)?

Dave Simmons - Pfizer Inc. - President & General Manager, Emerging Markets and Established Products

Yes. There's fundamentally, besides sales and marketing and medical functions, Pfizer operates its business unit structure in a shared service type of model. So we get legal support, financial support, regulatory support, manufacturing support out of
shared service platforms. So Pfizer manages a plant network, to take manufacturing point, that has plants supporting all of the core innovative businesses, all the Animal Health businesses, all of the Established Products businesses.

So if one looks at some type of autonomous business for EP, there is an impact of assigning plants. Those plants are generally mixed volumes, so you may have a plant that’s got 60% of its volumes that’s supplying Established Products, 40% that’s supplying the core innovative businesses. So how would one deal with that? Would it be a trailing supply agreement? It’s not impossible to solve these issues. Many of them are straightforward. I happen to think the sales and marketing commercial infrastructure is the most complex in Emerging Markets. The others can be managed. But it exists in every one of those shared services. One has to look at how would you parse up a shared service into a dedicated function and what would that look like?

Gregg Gilbert - Bank of America Merrill Lynch - Analyst

Thanks. I'll ask one more before I ask the crowd to weigh in, and it's on Lipitor. I'm sure you're asked quite a bit about this. First of all, within Pfizer can you talk about how Lipitor shifts from someone else’s responsibility to your division’s responsibility, and then maybe shed some light on how you plan to manage the brand and the generics thereafter, or your generic thereafter?

Dave Simmons - Pfizer Inc. - President & General Manager, Emerging Markets and established Products

Firstly, on upcoming LOE events, I'm going back to 2007 when the Established Products strategy was set in stone and approved in the Company, we had set a point of five years pre-LOE Established Products would start working with the core innovative business units to lay out a strategy for post-LOE management. And the reason for the five years is if we needed a new formulation or a combination product it would take time to develop that product. If we needed clinical trials we would need time to do that. So there's a check five years out. Then if we don't require anything longer term there's a recheck-in at three years out.

So, going to the Lipitor point, from two years ago up through this year Olivier Brandicourt in his Primary Care business unit, myself in the Established Products business unit have jointly worked on a plan for the LOE transition on Lipitor. The reason for this joint plan is the business units are set up for Olivier to maximize the potential of Lipitor up to the LOE event, my business is set up to maximize the potential post-LOE. The fact of the matter is we may have to do some actions pre-LOE event that maximize a three- to five-year NPV profile on that asset, so we have to do it jointly. And we do it jointly through our regional presidents, so the Europe plan looks different than the US plan looks different than the Asian plan.

And, now, Primary Care executes that plan in 2011 into 2012. EP takes over delivery of that plan. So the key points to this are that we are driving for a net present value calculation of scenarios how to manage the asset on a three- to five-year basis. We're not just in a simplistic mode where November comes in the US and we walk away.

Gregg Gilbert - Bank of America Merrill Lynch - Analyst

So in the US are the two levers we need to think about your authorized generic strategy and then the strategy for rebating and other clever programs to manage the brand to soften the blow there?

Dave Simmons - Pfizer Inc. - President & General Manager, Emerging Markets and established Products

Yes, basically.

Gregg Gilbert - Bank of America Merrill Lynch - Analyst

Okay.
Dave Simmons - Pfizer Inc. - President & General Manager, Emerging Markets and Established Products

And the one thing I want to point out is we do do a lot of work in this area, but when you look at the US market, if that's the market you're looking at at Lipitor, we don't have a magic bullet on Lipitor. We [have an innovative] something that the market’s never seen and we’re going to retain Lipitor value significantly post the LOE event. But there are still pockets of value to be had on the branded side through the authorized generic side, as you mentioned, Gregg, and that’s the -- those are basically the two levers that we would look at.

Gregg Gilbert - Bank of America Merrill Lynch - Analyst

I was hoping you'd make some of the middlemen sweat with -- by not pointing that out, but thanks for clarifying that.

Are there questions out there? Sure, up front, [Graham] has a question.

Unidentified Audience Member

Yes, I was just wondering if you could [talk through] the pricing outlook in your key emerging markets, particular focus on China and some of the things you've seen from the NDRC lately. Do you feel like getting worse or better?

Dave Simmons - Pfizer Inc. - President & General Manager, Emerging Markets and Established Products

Not better. But just let me go through maybe the BRIC-TM markets into two segments, those that are government-supported healthcare plans or government-administered healthcare plans in the case of China, Turkey, which is government socialized medicine, they pay for all the medicines, versus Brazil or Mexico, which is significant out-of-pocket-type market. Those out-of-pocket-type markets I’m not worried about price cuts. We may make price cuts to maximize the price volume mix and get to other parts of the demographic population as wealth rises.

On the government-managed markets, specifically Turkey and China are the two big ones, there is an ongoing concern of price cuts. If I take Turkey we seem to have a trend of four or five years good growth. The volume’s at a relatively fixed price. There’s some referencing pricing in Europe. And then, boom, big 25%, 30% price cut and we all kind of lament that for a while and then it starts to build again. But the trend line is in this positive direction over time, but you have this cardiac arrest chart that it looks like. But we’ve had that for a while in Turkey. It’s pretty manageable.

China’s a bit of a new game for us on this front, and what we know in Turkey we have to learn in China. And what we know in Turkey is the price-volume dynamics. Although the price gets cut there is a volume pickup that makes an offset on the business historically. Now, what goes forward I can’t completely predict, but history’s a good indicator so far.

This price cut from the NDRC that occurred in China that got implemented on March 28, in our particular business the cluster or concentration of impact was around anti-infectives and cardiovascular products. We are seeing volume uplift in this, but it’s not in the typical way we saw it in the past. We’re not seeing it in the form of geographic expansion of the base. We’re seeing it in hospitals where generic pricing also got hit and some of the generic players are out of the market and you have a product like Norvasc in formulary that’s sweeping up the patient volume. It's a new dynamic for us.

My fundamental point is I don't see it getting better. I don't see prices increasing in China. I see the pressure continuing. Data today, we believe there's some volume offset on the price cuts. The extent that we can recover the price cuts with volume, we'll know more as time goes on. Not as bad as you might think just looking at a straight price cut number, but still a negative trend.
Unidentified Audience Member

And maybe a second question on emerging markets. I was just wondering if the increased focus on FCPA of the US government is changing your business practices at all in terms of use of agents, that kind of thing, again in places like China.

Dave Simmons - Pfizer Inc. - President & General Manager, Emerging Markets and Established Products

The Foreign Corrupt Practices Act and internal policies and controls around Foreign Corrupt Practices Act really started to go in earnest in Pfizer back in 2001. So we're a decade ago where we were adjusting our standard control, internal control policies and supplementing them with a very strict interpretation of FCPA. An example of this is we went in and started to argue, well, one could make the argument that a physician was a government employee, so interactions with a physician had to be viewed from an FCPA lens. We did that very early on.

So my point of that is the impact of FCPA on our practices in Emerging Markets has been in effect for the past decade. I think the interesting dynamics we're seeing now is recent British legislation and the impact that's having that's Foreign Corrupt Practices Act-esque, and it's actually a little more tight in its definition of patterns.

Now, in markets if that plays out we feel very confident in our ability to have the right controls in place, and we do very frequent internal audits in our key emerging markets -- all of our emerging markets, but the big ones in particular. And really there's only a couple where we've had to say in certain segments of the market we're dialing down our aspirations because we think as much as we can minimize the risk the risk still exists and we're going to back off. More or less everywhere else we feel we can put controls in place to get the appropriate level of risk, appropriate being the same as we would experience in Western Europe.

Gregg Gilbert - Bank of America Merrill Lynch - Analyst

(Inaudible).

Unidentified Audience Participant

On the manufacturing front, once you have a patent expiration, can you maybe differentiate what happens in a situation where you feel like you've got a competitive cost advantage with the product versus one where you may not versus the supply that's available in the marketplace, how you handle those differently maybe in the US and in the rest of the world?

Dave Simmons - Pfizer Inc. - President & General Manager, Emerging Markets and Established Products

Yes. Well, first of all, the -- where cost -- cost becomes important in terms of how we manage the P&L in extracting the most value out of the business, so we're always trying to drive down the cost of sales line. But when it comes to the impact of cost of goods on our ability to commercialize and drive volume, we -- it's more pronounced in the tough markets, like the US, UK, Denmark, Netherlands, Germany and the sick funds. In the branded markets and emerging markets the cost differential that we have the prices legislated you usually see after exclusivity the original brand has to be cut 20% to 30%, then it holds the line there. It's still relatively high priced compared to if you looked at the UK and others.

So those markets, we don't do a lot with the cost differential we could have, because there's no need to come down on it and price is legislated. We could've managed the price if we wanted to. Now, on those other markets, though, where we see we have an advantage we do make conscious decisions of market share versus price comparisons and where we would generate the most value and what that tradeoff point is. So we would in some cases lower price to get more volume.

Generally where we have a cost advantage (technical difficulty) cost parity typically is on the sterile injectable products. Our manufacturing group does a very, very good job on this quality supply (technical difficulty) reliability is extremely supply, and
we don't have a negative cost differential. On solid oral dose form, typically when we go off patent in these tough markets we're in a cost disadvantage.

And what we're trying to get ahead of the curve on is getting that cost differential in line pre-LOE event so we're not priced out of some of these markets. It may go to a level that's irrational in the pricing and we choose not to engage, and we've done that in cases in the US, the German sick funds in particular. But we want to be able to make the conscious choice. We don't want to kind of sit there and say the selling price is 30%, 40% under our cost, our standard cost of goods. We need to get that in line. But that's basically how we look at it.

**Gregg Gilbert** - Bank of America Merrill Lynch - Analyst

David, to what extent is Pfizer interested in making sizable generic acquisitions in developed markets, and can you do that in the context of trying to assess the overall sort of what stays, what goes picture, the strategic review process?

**Dave Simmons** - Pfizer Inc. - President & General Manager, Emerging Markets and Established Products

First the second part of the question I'll tackle. Yes, we can. We're not constrained from looking at that if the return profile is right.

**Gregg Gilbert** - Bank of America Merrill Lynch - Analyst

Right.

**Dave Simmons** - Pfizer Inc. - President & General Manager, Emerging Markets and Established Products

But the return profile has to beat the share buyback return as a kind of barrier, and I'd say it'd have to beat it by some distance, because share buybacks are certain in terms of their value we can deliver back to shareholders. In any type of acquisition there's some executional risk and risk of synergy assumptions that we make. But we're not -- even as we're thinking through this there is a belief that there are certain capabilities that would make us more competitive if we had them. So that's the second part of the question.

The first part is developed markets, it is not a priority for us. The priority for us is key emerging markets and engaging in key emerging markets like the Teuto deal in Brazil. Now, there is -- if one could envision a map of the world with anchor points where you have a key emerging market like Brazil and a partnership with Teuto, and then we can leverage that partnership to take the portfolio across other Latin American markets, so you have a part of the world we cover through a partnership. One could look at a possible partnership in China that starts to cover Southeast Asia.

When you get into Africa, Middle East, a lot of the Africa, Middle East countries accept quickly for registration dossiers that were approved in France and Germany. So one could see some type of event occurring in Europe if the value creation was right, but basically from a lens of supporting Africa, Middle East as much or more than what it would do in Europe. In the US we're not very interested. Maybe something would come up that's extremely attractive, but we haven't seen anything yet.

**Gregg Gilbert** - Bank of America Merrill Lynch - Analyst

Are you a believer that branded generic markets will eventually become generic generic markets, and are the financial issues that some countries have likely to accelerate that evolution?
Generally, yes. We think that the branded markets will turn to more efficient market constructs over time. The debate we have internally, I think everybody has it, is when, when will they turn, what would be a catalyst for turning? If I give some color on my views on that, I think the most safe branded environments that’ll be the latest ones to turn are the ones that have a higher percentage of out-of-pocket expenditure for the medicine, so you see countries like Brazil, Mexico and India in this mix. The ones that would go first are socialized medicine countries where the government is paying the full tab, where there’s no copay from the patient. Keep Turkey in your mind.

But that being said, even a market like Turkey, I spent a decade in Europe and I sat and I watched, for those of you that know the European Monetary Union, the Maastricht Treaty had been the binding kind of rule by which a country was participating in the Monetary Union, which meant that their deficit to GDP ratio could be no higher than three. If they were in violation of that they could have sanctions given. So this was a very serious kind of financial help criteria. And we saw multiple countries that had violated the Maastricht Treaty.

And I’ve only seen one branded market turn to a more efficient market, and that was Hungary, that it had instead of 3% it had 12%. Took in austerity measures. It didn’t matter. The Gedeon Richter was a home-based company. They switched to a quarterly tendering process, similar to the German sick funds, not exactly the same, which put bidding in, dropped the prices on the generic products almost overnight and turned it into an efficient market.

Even Greece, which had the biggest financial problems amongst the Southern European countries over the last couple of years, their response to that over the last three years has been a serious price cut, but it’s still a branded market where the physician has to prescribe a brand and the pharmacy is required to dispense the brand that’s written. So although pricing’s gone down the fundamental construct hasn’t shifted, even in a market like Greece.

Now, there’s different pressures that make that answer the question why. One could be it’s hard to put in the legislation and regulations that make it an efficient market. Another could be local companies and the political implications of hurting an environment for local companies. I think all these things play out. My point of these examples is arguing that I think it’s later than a purist would think, but still, to the fundamental question, we do think these markets are going to turn at some point. They will become efficient markets.

What about the more disruptive possibilities such as a manufacturers and distributors coming together, or manufacturers going direct to a customer? Where do you see opportunities for Pfizer there over time?

Yes, that’s a very good question, and, I mean, it’s a bit conceptual, meaning we don’t have plans for this. But we do believe -- we look at ourselves and say, okay, we know we’re operating, especially in this off-patent market, and we tend to look at ourselves of what does a generic competitor have that we don’t have? Okay, they have the low-cost manufacturing. They have the high-throughput generic dossier development. But we started to look at what do we have that they don’t have. And in branded markets we have physician relationships, relationships with governments that have been decades in place, because we started a lot of our Emerging Markets operations in the ‘60s. And we also have these legacy brands and the Pfizer logo that’s a really trusted, high-reputation, high-quality type company. And we have started to play this out.

If, one, you could look at going directly to patients, who want the original brand that they were on, but the systems that they’re in have forced them to switch into a generic, and one could ask why. And I think you could use as an example this. When Walmart
started their $4 a month program, they pulled in a lot of patients that had no coverage. It didn’t take patients from somewhere else. It completely gave an offering to an uncovered part of the US population. I mean, so one can imagine. They’ve proven you can appeal directly to patients without a lot of intermediaries. In Australia we recently put in a direct-to-pharmacy approach, so this isn’t the patient direct but direct to pharmacy, moving away from the wholesalers, and we have a commercial offer that’s tucked in with that that leverages the brands. And this combination has been very good for us, and we see for the Australian business a fairly significant value delta from our original plans to the post-plans once we put this in place.

Gregg Gilbert - Bank of America Merrill Lynch - Analyst

What was unique about Australia such that we shouldn’t think about you doing this in various other places?

Dave Simmons - Pfizer Inc. - President & General Manager, Emerging Markets and Established Products

I’m looking for other markets. But the fundamental construct in Australia was a quasi-vertical integration of wholesalers and generic companies. There weren’t many in play.

Gregg Gilbert - Bank of America Merrill Lynch - Analyst

Right.

Dave Simmons - Pfizer Inc. - President & General Manager, Emerging Markets and Established Products

So it wasn’t a complex web of a distribution system, and it was not so hard to disrupt it and get straight to the pharmacist with a valuable proposition. We would need to see the same type of construct.

Gregg Gilbert - Bank of America Merrill Lynch - Analyst

Any last questions for Dave?

Well, thank you all for attending. We’ll see a lot of you up at lunch and we’ll get started again back here at 1 o’clock. Thank you.

Dave Simmons - Pfizer Inc. - President & General Manager, Emerging Markets and Established Products

Thank you, Gregg.