Unidentified Participant

Good morning, everyone. So thanks for joining the Pfizer session. I appreciate it. It's my pleasure this morning to welcome two executives from Pfizer. I will first introduce David Simmons, who is President and General Manager of the Established Products business unit. David has held senior positions with Pfizer across a range of disciplines, spanning marketing, technology, and overall country and regional management in the US and Europe, including leading the Pfizer Greece organization from $95 million in sales to over $400 million in just four years.

Jean-Michel Halfon is President and General Manager of the Emerging Markets business unit. Prior to assuming this role, he served as area president in a number of emerging markets. And he grew Pfizer Canada from a $500 million to a $2.3 billion business. He launched Zithromax, Norvase, and Zoloft with Pfizer France.

And so I figured I would kick it off with a high-level question about the new Pfizer in terms of the organizational structure and the P&L responsibility of business unit leaders like yourself. So I was hoping that both of you could comment a little bit on the P&L responsibility that you have and the capital decision-making and control that you have that's different today than what you were doing two years ago.

Jean-Michel Halfon - Pfizer Inc. - President and General Manager, Emerging Markets

Yes, it's fundamentally different from what it is today. Let me maybe start with what the definition of emerging markets at Pfizer. So emerging markets includes Latin America, Africa, Middle East, Eastern Europe, Russia and Turkey, and Asia, with the exception of Japan and Korea.

So to give you a sense, in 2012, we're talking about 82% of the global population. 30% of the pharmaceutical growth -- pharmaceutical consumption, and 70% of the growth of the pharmaceutical consumption.

So at Pfizer, we are organized by business unit, and each business unit has a P&L responsibility. So my leadership team includes players who have, themselves, P&L responsibilities. Pfizer P&L responsibilities in terms of geographies, but not only geographies, also P&L responsibilities in terms of brands or series of brands.

And my leadership team is one Pfizer leadership team which includes all functions, including the functions that you mentioned before, which is, for example, a legal business development manufacturing. So it is -- which [total] lines report to me. So it's an integrated one Pfizer business unit, agile response -- transparent, responsible for the P&L, short term, long term.

David Simmons - Pfizer Inc. - President and General Manager, Established Products

Maybe I could add to that, to further the definition. So you heard the geographic representation for emerging markets. The other business units, including mine, established products, have a portfolio overlap with emerging markets, but we have specific responsibility for the profit and loss in the developed world, including North America being US and Canada, developed Western Europe, as well as Japan, Korea, and Australia. So in terms of the question about how does this business unit manifest empowerment or faster decision-making, better decision-making, better approach to business. Perhaps I'll use a couple of anecdotal stories.

First, I'd say we are incentivized primarily by delivery of sales and profit targets within a year. That's the vast majority of the weighting of our objectives to drive our incentives. That's balanced to some extent by strategic objectives that have us focus on long-term sustainability and
building the foundations for growth that will play out over the coming years. So it is a balance, but there is a near-term financial execution that we are heavily weighted towards.

In terms of empowerment, if one looks at a couple of examples from my business unit in the last year, I will give two. One is looking in the off-patent market, which generally Pfizer didn't look so deeply at in the past and identifying a growth opportunity in that and pursuing it and how long would that take.

So one story is in the US, and more broadly globally, we notice the hospital-based sterile injectable market, which in the US is about $11 billion and growing at 8% a year. Roughly triple it for the full worldwide sales in this area. This market is characterized by difficult-to-make products that have very high quality standards. One cannot mess up in this area because it's so critical to patient care in hospitals. This is an area where Pfizer has very good strengths. Our cost of goods are in very good shape. We should be able to compete here.

So we developed a strategy in early 2008 and what we identified is we have 30 products in our portfolio of legacy business. We need more than 100 to be one of the top-tier players in hospital-based sterile injectables. So empowerment, to me, the decision rights that were given to me running the business unit were one, where I could reinvest proceeds for me exceeding sales and profit targets in 2008. So with the excess I was able to generate with my regional presidents, we put the money back into the business, executed the deals with Aurobindo and Claris, which I think you've read about if you follow my business; that helped extend the sterile injectable portfolio by 30 products, which put us in position to exceed targets this year so far.

We are putting more money back into the business. We're filling out infrastructure in the US selling to group purchasing organizations and hospitals directly. This was a shrinking part of our business in the past. We've already stabilized it this year, and we're looking for growth out of this segment next year.

So I think in this story you will see there was no bureaucracy that I had to go through. I needed capital; I needed investment capital to do this. The Company gave me the rights, if I could generate the cash myself through increased business versus target, I could reinvest the proceeds. That's one example.

The second example is attacking cost structure. On the sterile injectables side, our costs are in pretty good shape. On the solid oral dose site, the pill side, we are generally disadvantaged versus top-tier competitors like Teva and others. So we put in programs to benchmark and drive cost of goods down.

Now, the business unit head has to have some power in terms of driving this because it's not easy to tackle this type of cost change. So I will take an example, which was gabapentin, or Neurontin was the brand-name. When it went off patent in the US, as soon as we were past the 180 day period, there were a tremendous number of generics coming in. The prices went lower than our internal cost structure, so to hold the share we had in our Greenstone business would have meant selling at a loss. It would have been a negative cash impact for Pfizer.

We saw our share of the gabapentin molecule go from 60% down to 10%. That was two years ago. We put in programs to outsource API to an emerging markets provider, do the drug product manufacturing in Puerto Rico and a lower-cost plant in the Pfizer network to maintain the same quality standards. We got back into the US market, and we clawed share back from 10% to 50%. So this is -- these two examples I hope give you a feeling for what the empowerment of the business units really is like in Pfizer.

Great. And Jean-Michel, if you could please talk about your emerging markets revenue stream. It's difficult for outsiders to really understand the business momentum, the breakdown of your operation in terms of where the majority of the revenue is coming from in Emerging Markets. And then, what portion of that Emerging Markets' revenue base is actually high growth? Because some of that is slower growth. Some of that is higher growth. But if you could frame it for us, that would be helpful.

Okay. So first, Emerging Markets includes the different dimensions of the business. So 50% of the business is established product. 50% of the business is primary care, specialty oncology. And by geography, you have 13% of the business which is in -- we made in Africa, Middle East, 13%. You have 23% which is made in Europe, Russia and Turkey. You have 29% which is made in Latin America and 35%, which is made in
Asia. So this gives you a sense of where the business is being made. Now, when you take primary care and specialty oncology in the first six months of this year, it's growing double digits.

A product like Lipitor, which is our number one product in Emerging Markets is growing double digits. Lyrica is growing by more than 30%. So some parts of the business are growing very, very fast.

Established brand products is growing single digits, but some parts of established products, for example, products like Norvasc is our second product in Emerging Markets. And some products like ziprasidone, which is very strong in China, some products like Medrol for pain are established products which are growing quite fast, which are among the 10 products in Emerging Markets.

Now, first Wyeth. First, Wyeth. First, I need to say that today in terms of ranking on the pharmaceutical market, today we are ranked number three. And first Wyeth, we will rank number two on the market. And of course, Wyeth will add a huge dimension to this business. So the nutrition and consumer business, which will be part, as you know, of diversified not of the biopharmaceutical. But within biopharmaceutical, we will reinforce established products with products like Effexor for depression. We will reinforce primary care with products like Pristiq of the women's health brands of Wyeth. We will, of course, reinforce specialty with Enbrel in rheumatology. But we will add a whole new dimension with vaccine. And this is the P&L responsibility of the business unit.

Great. And could you just talk about recent year-over-year growth for your business in terms of what you saw in the June quarter ex currency and how we should think about growth going forward?

So to the first quarter, you've seen that the first quarter, we were growing by 5%. The second quarter, we were growing by 9%. So I hope that we will continue with this type of acceleration of growth quarter by quarter. But I think we are in a nice direction to increase the speed. And so when you compare to the market, we are still not at the market growth. But we are at the level of our competitors or above the level of the growth of our competitors, the three or four key competitors that we have in Emerging Markets.

The reason that we grow slightly below the market is because each of the segments of the market is dominated by local companies which are much more involved than we are in the branded generic business. And this branded generic business is growing slightly faster than the innovative business. So the Aurobindo partnership that we have with Dave is a significant opportunity for us to ensure that on the medium term we accelerate again our growth in emerging markets.

That's very helpful. And David, I was hoping that you could frame your business as well in terms of revenue stream by geography. And then put it into context in terms of the growth drivers versus the growth pressures. Obviously, you are investing in growth, but at the same time in established products you are up against governmental initiatives to drive greater adoption of generics, which may erode your established product revenue. So if you could talk about the balance and how you think about your total revenue in your franchise and whether it can grow or whether it will be in decline.

Okay. Let me come at this from a couple perspectives. First, the straight answer on the geographic breakdown, North America being US and Canada is roughly a third of the business units sales. Asia, which is Japan, Korea, and Australia, is roughly a third, and developed Europe is roughly a third. It's eerie how close it comes out to equal thirds across that grouping.

Now, we do manage regionally, but we tend to track our targets and set initiatives based on market characterization; market characterization being pure commodity markets versus branded type of markets. And we track our portfolio and our performance across three perspectives internally.
The first is our base business, which, in the past, has been 300 products globally. It's about 100-ish that are truly global products. And that part of that portfolio has historically been shrinking at massive rates. The established product portfolio in developed markets in 2007 had minus 37% growth. In 2008 it had minus 19%.

Part of our mission is to stabilize that as much as possible. We won't get that base to grow. We can minimize the erosion rates as much as possible. Some of the investments are going into doing that because any delta off those past erosion rates is real money that we maintain. The way we get to growth is by portfolio expansion and enhancement, things like the Aurobindo and Claris deal.

Product improvements over some of these old products. An example is an oral dissolving tablet of Norvasc that was launched in Japan at the time of LOE. And this slight change in form has allowed us to only lose 16% volume share in Japan versus historic analogs that were somewhere around 33%. So these type of initiatives is picking up and trying to minimize that negative erosion. But these enhancements in expansion is what will get us to grow. So we track more by market characterization and across each of those segments, expansion in the base business than we do geographically.

Unidentified Participant

Great. And I'll just ask one other quick question and then open it up to the audience. So Norvasc in Japan is quite interesting because I think it was at a run rate over $1 billion in sales when it went off patent. So if you could talk about that new formulation and that trend; and explain a little bit further in terms of how we should think about the outlook for Norvasc in Japan now.

David Simmons - Pfizer Inc. - President and General Manager, Established Products

Two things. First of all, Norvasc, from an IMS basis, MAT in June of this year, Norvasc has sold about $2 billion. Roughly half of that comes from Japan. So Norvasc post LOE in the US, Japan is the biggest contributor of Norvasc sales. And holding that business despite more than 30 generic competitors is really a fight. So the way to do that is to leverage the clinical and scientific data we have on that.

For example, Japan is just launching the 10-milligram formulation, mainly in the indication of diabetes mellitus. And that, combined with new formulations like the oral dissolving tablet, which is very popular in Japan, these types of approaches allow us to minimize that type of erosion.

So I think looking forward on it, one typically sees analogs of 30% to 35% volume erosion on big products. Pravastatin is a good analog, if you want to research the Japanese market and look at one. So the way to track us is I would say relative to those historic analogs and how well we do. I mean we are in business to outperform historic analogs.

Unidentified Participant

Great. That's very helpful. So let me just open it up to anyone if they would like to ask questions as well.

QUESTION AND ANSWER

Unidentified Audience Member

Thanks, David. A couple of questions, one of the issues I think investors have on the Emerging Markets is not appreciating that there's a big value opportunity. It's understanding the timing of evolution or when it starts to make an impact on the growth rates, a meaningful impact and moving the needle.

What's your anticipation that in fact the timelines in some of these markets could be expedited, particularly in China, where you have the political motivation in order to accelerate healthcare insurance, so rather than necessarily, being a GDP-driven phenomenon, you're actually going to see it much sooner. Is that a reasonable way of thinking about things?

Jean-Michel Halfon - Pfizer Inc. - President and General Manager, Emerging Markets
Yes, thank you for your questions. I have to element to your questions. The first element is we significantly increased our investment in China. As you will know, we announced this last year and our investments are now well underway. We have an increased number of cities in China to 174 and we have increased our sales force from 2200.

But to answer your question is to see the impact of these investments, we have already seen them in China for the growth that we have in this country.

The second element of answer is the health reform that has been announced in China last April with the decision from the Chinese government to invest $125 billion in health care reform. So this investment in China will significantly change the structure of the consumption of pharmaceuticals, and I would say consumption of healthcare in China. So Pfizer is -- there will be an impact on the volume. There will be an impact on the rate of diagnosis. There will be an impact on the rate of prescriptions in China.

So Pfizer is working very closely with the Chinese government and with stakeholders in China to ensure that we can quickly adapt our business model. So it won't be like immediate impact, but the fact that we have increased our investments in the past two years in China has seen an impact on the volume shows that I'm quite confident that it could have a short-term to medium-term impact.

And David, maybe you could talk about your generic strategy versus the Teva and Mylans in more detail. Obviously, the cost structure of a branded drug company, including compensation of people, benefits, the way that you do business, etc., etc. I mean for example, Pfizer is headquartered in New York City on 42nd St. Mylan is headquartered in West Virginia, an hour and a half drive from Pittsburgh. So all throughout the organization, obviously you are running a different business unit and you have the P&L control.

But throughout the organization, your cost structure is much higher, and the mentality of the organization hasn't been to be a commodity company. So as investors think about the evolution of your business, how far do you think you will go in terms of broadening out your breadth of products and small molecule generics to compete with a Teva or a Mylan? Should we think of your plan is to become a materially larger player in the US market, for example? Or is it a much more targeted approach?

It's a good question. Let me step back and put this in context. So as I mentioned earlier, the off-patent portfolio in Pfizer has been striking. We're going to try to reduce that shrink as much as possible. We are committed to the Company to getting that to growth. This is excluding LOE products like Lipitor coming over. So move those to the side for the time being.

In order to get that to growth, we have to expand the portfolio in the off-patent marketplace, which is generics. We are very, very strong in markets that are more branded, where the physician or independent pharmacist take the decision of what's going to be dispensed. So in terms of if you are judging us versus a Mylan or a Teva in these markets, if I was you, I would tilt the weight of what one needs to succeed more in the favor of Pfizer.

In the pure commodity markets like the US, the advantage is in the lower-cost providers. Although being in New York versus -- I'm from West Virginia originally -- being in New York versus West Virginia, the amount of people we have in this business from a G&A standpoint is tiny. So in terms of if you are judging us versus a Mylan or a Teva in these markets, if I was you, I would tilt the weight of what one needs to succeed more in the favor of Pfizer.

Now we will, it is a more targeted type strategy, but where we have infrastructure, we will leverage it. So we have Greenstone, which is a fixed infrastructure. It is a fixed amount of money. So we started with 65 products that traditionally came from Pfizer. For me to put another 100 products through that, maybe I increment one or two people on the contract side. So there's very little amount of extra investment. I can leverage the investment if I have the right cost structure on cost of goods. Aurobindo gives me that on non-Pfizer products. We have some work to do on Pfizer products.

So you will see us doing more in the US, but it's more about leveraging existing capability than that being a strategic type of move. Our approach in branded markets is more strategic because it leverages Pfizer's strengths that are superior to the typical generic company.
Unidentified Participant

That's helpful. And you mentioned injectables, just to follow up on that. Can you just provide a little bit more detail on what we should expect going forward and your opportunity in the generic injectable marketplace?

David Simmons  - Pfizer Inc. - President and General Manager, Established Products

Yes, I will at least throw out some bread crumbs for you. I don't know if I can get more specific than that. But we have launched the business -- the US has been the first market because it's the most sizable hospital-based injectables market. As I mentioned, it's $11 billion of generic hospital-based injectables growing at 8%. Our aspiration is to be the leader in this area. Specifically in the next five years, we're looking to be one of the top five companies, ranked companies in this segment. Currently, we are ranked about number 14. So you can go research some of the companies. You can find out what the delta is.

Now, you triple that market ex US. We have a bit more research to do to find out how we're going to compete as effectively in those markets, particularly develop Europe as well as we do in the US.

Using US as a surrogate marker because we have experience, the customers are responding very favorably to this. We just launched this Pfizer injectables business in the US in April of this year. We've already secured 40 contracts through key hospitals and group purchasing organizations.

We've been talking about Pfizer's quality and supply reliability. And our internal thesis has been if our costs do not make us uncompetitive, we have an advantage in the pedigree of Pfizer and what we bring in terms of quality and supply reliability.

In sterile injectables, we are not at a cost disadvantage, so we are seeing this thesis play out. The customers are resonating very positively towards this type of proposition.

Unidentified Participant

That's very helpful. Other questions from the audience?

Unidentified Audience Member

Just quickly on China, they announced a list of I guess I call them necessary drugs, essential drug list, of which 200+ I believe were non-Chinese oriented. And the other was regular Chinese medicine. Does Pfizer or Wyeth have any names on those lists?

Jean-Michel Halfon  - Pfizer Inc. - President and General Manager, Emerging Markets

Yes. We have worked with the Chinese government, who has to have a product on that list. And that's part of the organization of commercial activities in China moving forward.

Unidentified Audience Member

What's happening in penetration for insurance coverage for pharmaceuticals in China, India, Brazil, Latin America?

Jean-Michel Halfon  - Pfizer Inc. - President and General Manager, Emerging Markets

Penetration of?

Unidentified Audience Member

Of insurance coverage for pharmaceuticals and --
Jean-Michel Halfon - Pfizer Inc. - President and General Manager, Emerging Markets

Most of the markets in Brazil, in China, and in India today is out of pocket. Most of the markets, hopefully. Most of the markets in Brazil is out of pocket, and the market is mostly a branded generic business. If you take for example the Brazilian market, about 40% of the market is branded generic. 20% of the market is unbranded generic, and the rest is innovative.

If you take the whole emerging market, the share of innovative medicine is let's say about 20%, 25%, slightly decreasing. So the share of unbranded generics is about 20%, slightly growing. And the share of unbranded generics is the bulk of the business.

Now, your question about reimbursement by private insurance, I would say very low growing in India. Very low growing in Brazil. And frankly, I don't know in China. It should be very, very small.

But in China, the key will be the reimbursement, as you said, in the essential list by the government. And the goal of the government is to be able to cover 90%, not 100%, but 90% of the population by 2011. But that's what we know at the moment.

But it's a little bit difficult to answer the speed of implementation of the health-care reform in China because it's not very well-known. What we know is that the responsibilities, the formulary responsibilities or reimbursement triggers, will move from the center to the province. And so the decision-making process at the provincial level would be very, very important because it will be exception to the essential list, which is decided at the centralized level. So it's very, very important for us to have capabilities at the central level but also at the provincial level in China.

Unidentified Participant

Great. Well we are actually out of time. I apologize, but thanks so much for joining us. We appreciate it.