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PFE - Pfizer Inc at Morgan Stanley Healthcare Conference

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PRESENTATION

David Reed Risinger - *Morgan Stanley, Research Division - MD in Equity Research and United States Pharmaceuticals Analyst*

So thanks, everyone, for joining us for the Pfizer session. I just need to refer you to disclaimers at www.morganstanley.com/researchdisclosures. It's my pleasure to welcome Frank D'Amelio. He is Executive Vice President of Business Operations and Chief Financial Officer, and he's been with the company now 12 years, so time flies. But I thought it would be great to have you, Frank, start with a few opening remarks, and then we'll take it from there.

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

Just I think this is, what, the third or fourth year in a row you and I have done this conference?

David Reed Risinger - *Morgan Stanley, Research Division - MD in Equity Research and United States Pharmaceuticals Analyst*

Yes.

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

So just -- I'm delighted to be here. I look forward to answering questions and hopefully being as helpful as I can possibly be to the audience regarding Pfizer and NewCo and any questions that Dave and you all have. So I'm just looking forward to the session.

QUESTIONS AND ANSWERS

David Reed Risinger - *Morgan Stanley, Research Division - MD in Equity Research and United States Pharmaceuticals Analyst*

Excellent. Well, maybe you could talk a little bit about the transformation of the company. Obviously, you announced the Upjohn deal with Mylan to focus the company on core growth assets and franchises, so maybe you could speak to that. And as you comment, if you could also maybe touch on what you think the market may underappreciate about that deal.

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

Sure. So I always say -- I mean I think the market has a good handle on the transaction, but let me make some comments and see if I can add to that a little bit. So when you think about Pfizer, call it, a year or so ago or even at the end of July, so we completed the Consumer joint venture. So basically, we'll do equity accounting now in Consumer joint venture. We'll have 32% of that venture, and we'll bring it into the results through Other Income equity accounting.

Then we announced the NewCo with our Upjohn business and Mylan. So say that, that closes, give or take, in approximately a year, so the middle of 2020. Just come -- when that closes, Dave, we, Pfizer RemainCo or new Pfizer I call it, we're a dramatically different company than what we've



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been in the past. Come the close of the NewCo, we're a pure innovative play. So think about it as a pure innovative play on a smaller base, call it, give or take, about a \$40 billion base, and we can talk about that if you all would like in the Q&A, too.

Now a couple of other points to make here. One, we keep our entire pipeline, RemainCo Pfizer. We keep all the growth products. We're going through a period of very low LOEs for the company. So this year, give or take about \$2.4 billion in LOEs; next year, about \$2 billion in LOEs; 2021, \$1 billion or less; 2022 to 2025, about \$500 million or less. Now just to be clear, I like the financial effect. I like the fact that we have low LOEs, but I want to be crystal clear. I don't like the operational costs. But the fact that we have low LOEs is because we had poor R&D productivity many years ago, and that's changed over the last few years. But to me, a few billion every year in LOE is our normal business. That is what we should expect if our R&D pipeline is doing what it's supposed to be doing. So very low LOEs at a time when our pipeline is the best it's been since I've been here. And to your point, tomorrow, I'm here literally 12 years with Pfizer, so I've got some history now with the company.

If you look at the Phase 3 readouts we're going to have next year and the Phase 3 starts we're going to have next year, the POC readouts we're going to have next year, we're really in a good position in terms of the LOE -- the LOEs we'll be dealing with and then the strength of our pipeline literally over that same period. So it's a real nice confluence of positive events.

So from my perspective, what we did in terms of becoming a pure innovative play, the timing of this really couldn't be better, at least in terms of the time I've been with Pfizer. Obviously, I can't speak to before I came to the company. Maybe another couple other points on this then I'll stop.

So what is management? So what is Pfizer management? What's the executive leadership team going to be focused on, right? I mean, from my perspective, it's the things we've been focused on. It's maximizing the opportunities for our in-line portfolio, executing on our pipeline, managing our cost structure and being really disciplined and prudent with how we deploy our capital. And what do we want to do? Ultimately, we want all of that to translate to, for new Pfizer, approximately 6% growth on the top line and then obviously leveraging that and doing better than that on the bottom line. And hopefully, over the years, we've demonstrated our ability to manage our cost structure and to deploy capital in an effective way. So that's kind of how I think about the rhythm of the company.

David Reed Risinger - Morgan Stanley, Research Division - MD in Equity Research and United States Pharmaceuticals Analyst

Great. And then could you talk to some of those initial rough targets that you would convey? My understanding is that they might have been a little conservative with the \$40 billion and the 35% pretax margin for RemainCo. So maybe talk to that first, and then we could pivot to NewCo.

Frank A. D'Amelio - Pfizer Inc. - CFO & EVP of Global Supply & Business Operations

Sure. So I want to -- before I answer the question, I want to provide some context because it's a really good question. I've been asked this a few times now, so I want to provide context. So think it's the end of July. We're announcing NewCo. NewCo is providing 2020 numbers: \$19 billion to \$20 billion in revenues, \$7.5 billion to \$8.5 billion in EBITDA. They're talking about free cash flow. They're talking about dividends. They're talking about leverage. So NewCo is providing a whole bunch of 2020 and beyond targets. So now on RemainCo, new Pfizer but RemainCo, right or wrong, Dave, we and I concluded we have to provide some numbers for 2020.

To have that call, to have NewCo providing numbers for 2020 and for Pfizer RemainCo to not be providing numbers is just not a prudent thing to do, kind of point one. Point two, if you think about the cadence of our company and how I've always done guidance, what is my rhythm on guidance? I always provide guidance when I close out the fourth quarter. So typically, the guidance we provide for any given year, so I'll use 2020, typically, when would I do that? At the end of January, when I'm closing out the prior year, so in this case, it would be 2019 and providing guidance for 2020. Come January, the end of January, we'll have our fourth quarter earnings call. We've always done that since I've been here, so we're very, very early in our operating planning process for 2020. And typically, we don't formalize that until the end of the year, literally until December.

So given we concluded and I concluded we needed to provide 2020 numbers, the way I would describe it is I set the bar low. And obviously, the intention is when we do provide, I'll call it, formal guidance for 2020, that we'll improve upon it, and that's how I think about it. And so in my mind, they were directional. The numbers were directional. Now if you listened to our earnings call, the first question on the earnings call was, "Frank,



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does this mean you're giving us guidance for 2020, an EPS number of \$2.10?" But the math on that was simple, right? It was \$40 billion times 35% times our attach rate divided by our shares outstanding. You get \$2.076, and you round it to \$2.10. The math is pretty simple. And my answer was no, that's not the intent of the numbers, but obviously, that's what happened with the numbers that we provided.

So to summarize, set the bar low given how early we are in the operating planning process. Obviously, our intention would be to improve upon those numbers, and we give guidance in the future. You all should expect that we'll provide guidance like we typically do when we close out our fourth quarter earnings call, before we close out the year, provide guidance for the coming year. That's the way to think about it.

David Reed Risinger - *Morgan Stanley, Research Division - MD in Equity Research and United States Pharmaceuticals Analyst*

Okay. Very helpful. And then maybe you could talk about Upjohn and RemainCo. I guess you have provided those numbers for RemainCo for next year. Maybe you could talk to your level of confidence in those numbers and then how one should think about Upjohn, I guess, since that's the business you own and the best currently, how we should think about that beyond 2020. That would be helpful as well.

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

Right. So let me do Upjohn first, and I'll talk about RemainCo and see if I answer your question. But I'll talk about Upjohn through 2020. Come post 2020, Pfizer is not going to have -- once we do the NewCo, Pfizer won't have a continuing ownership position in NewCo. Now I want to be clear. I very much want NewCo to do exceptionally well because our shareholders are going to own 57% of NewCo, but Pfizer won't have an ownership position in NewCo.

So I'll talk about the numbers as we printed for the 2020 period. So everyone saw the numbers we printed, about \$19 billion to \$20 billion for the company, about \$7.5 billion to \$8 billion in EBITDA. For Upjohn, it was about \$7.5 billion to \$8 billion in revenue, call it, \$3.8 billion to \$4.1 billion in EBITDA.

So let me talk about the Upjohn numbers. And from my perspective, if you were say to me, Dave, what's kind of the big potential variable item there, which is what I think you're asking me, I'd say China. And if you think about it, and everyone saw the announcement last week, I'm sure, we went from the -- on the volume-based procurement, we went from the 4 plus 7, the 11 cities to all 25 provinces. Now in the numbers that we provided, and by the way, those numbers were a collaboration. Obviously, Pfizer management and the NewCo management team, we worked those numbers together in terms of what we showed for NewCo. We assumed volume-based procurement was going to be in all 25 provinces come the beginning of 2020. So I don't see that announcement, that action by China as having some material meaningful impact on the numbers that we provided. We anticipated that in our numbers. So that's how I would talk about NewCo.

In terms of Pfizer, you also asked me about Pfizer. Now the things -- maybe the way I'll answer this is just the things I'm watching, kind of things that we're working our way through as I work my way through the operating planning process. So clearly, one is we have the ACIP provisional recommendation. So one of the questions is how is the health care professional going to be defined. You're going to need to go to a doctor and get a script to walk into a pharmacy to get a vaccination or not. But remember, on the Adult, Adult is, what, 20% of our sales. Pediatric is about 80% of our sales. Obviously, we had the Xeljanz label change, so obviously, I'm looking at script trends. Although here we are about a month or so beyond those -- the warning label change, and scripts haven't really been impacted in a negative way, so that's been a positive. That will be something I continue to watch.

And then you saw our brands this past quarter in the U.S. was up 12% and really strong. The CDK 4/6 class took share, really, from our core traditional chemo, traditional radiation as our reps have been detailing some of the slower adopters. So if you think about -- maybe I'll spend a minute on Ibrance because that's one of the key -- obviously a key product for us, maybe run some numbers on Ibrance, and then I'll talk about the rhythm of the business. So if you look at Ibrance this past quarter, up 27%. U.S. was up 12%. International was up 67%. You look year-to-date, Ibrance is up 26%, and U.S. is up 7%. International is up 84%. This past quarter, \$1.3 billion in sales. I mean, really solid performance by that franchise. And when I talked about Ibrance in the past, the way I always talked about it was in 3 phases of growth. I always said the first phase would be the U.S., and



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then that would kind of stabilize, and then we'd see growth internationally. And then we'd see growth through our adjuvant settings, through the earlier-stage trials that we're doing now with PALLAS and PENELOPE.

So if you look, it's been doing exactly what we thought it was going to do. International is growing terrifically. And quite frankly, the nice positive, almost, in a sense, better than we thought, is what's been going on in the U.S. So this past quarter, that 12% was really solid. So one of the things I'm watching on that relative to next year is was that an anomaly or was that a trend. And I can take that positive trend and carry that out into 2020, when we provide guidance for next year. So those are the things that are on my watch list. And maybe one other thing on this -- and if I'm talking too much on this, David, just please stop me.

David Reed Risinger - Morgan Stanley, Research Division - MD in Equity Research and United States Pharmaceuticals Analyst

You can talk, not me.

Frank A. D'Amelio - Pfizer Inc. - CFO & EVP of Global Supply & Business Operations

Okay. So the other thing I mentioned is just China. I want to spend a minute on China because whenever I get -- whenever we talk about China, people always talk to me about China relative to our Upjohn business. And by the way, about half of our business in China is our Innovative business. So let me once again run some numbers because numbers tell stories, right? This year, we'll have, give or take, about \$5 billion in revenue in China, give or take. Roughly half of that is the Innovative business. You look this past quarter, the Innovative business in China grew 26%. The Upjohn business was down 20% because of volume-based procurement in China. Our Innovative business was up 26%. Overall, we were up 2%. We see huge opportunity for Innovative business on a going-forward basis in China. And please note that our infrastructure in China is organized in a way where there's so much for Upjohn and so much for the Innovative business. It's organized already that way. We have thousands of reps for each of those businesses that are organized that way. So all the footprint, all the, I call it, the supply chain that we just -- it's all in place for Innovative business. So we see significant opportunity for Innovative business in China on a going-forward basis.

David Reed Risinger - Morgan Stanley, Research Division - MD in Equity Research and United States Pharmaceuticals Analyst

Excellent. And I just want to go back to Upjohn/Mylan and then focus much of the rest of the time on RemainCo. But as you contemplated that transaction, obviously, you did due diligence on Mylan's prospects. It's a controversial company. Can you talk about the visibility you believe you have on essentially their portion of the numbers, so that portion to get to NewCo's numbers for 2020, and then how we should think about leadership of NewCo?

Frank A. D'Amelio - Pfizer Inc. - CFO & EVP of Global Supply & Business Operations

Sure. So we did thorough, thorough, thorough diligence, and the way we do diligence is we do -- we go in and we do it by work stream. We've done lots of acquisitions, so we're real good at diligence. We're real good at integration. So we obviously went in there. We had a bunch of work streams that reviewed the various elements of the company, manufacturing work stream, our legal work stream, our finance work stream, our research work stream, a whole series of work streams that we go into diligence of the company. So quite frankly, in terms of the numbers that they put out and how do I feel about them, quite frankly, I feel fairly comfortable in all of what we saw in our diligence and, obviously, the numbers that we put out. But the intent is to put numbers out that we're going to make, right? Basically, we always do what we say we're going to do.

Maybe a couple of other points on this. Think about our Upjohn business the following way: 20 iconic brands but no pipeline. Mylan and Pfizer, Upjohn was really never going to get a pipeline because its pipeline was really products that were losing patent -- products that were losing patent -- there's a patent protection, of which there isn't much, between now and 2025. Lyrica is already there, which is the big one we're going -- we lost this year, and that will have the big impact on revenue come 2020. So there really isn't a pipeline. And then when you're competing for capital inside Pfizer and you're looking at business cases, Upjohn's really never going to get a lot of R&D capital. It's always going to be biased towards the Innovative business. So you look at the Upjohn business on a going-forward basis. You look at Mylan. Quite frankly, when we did our diligence, I



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thought the big -- whenever you do diligence, you always get 1 or 2 ahas or wow. The aha in the Mylan diligence was the strength of their pipeline and all the various areas that it covered. So we looked at that. You think about our geographic footprint, our capabilities including in places like emerging markets in China, 20 iconic brands. We looked at what Mylan has kind of in their end market portfolio plus their pipeline plus \$1 billion in synergies, and quite frankly, we thought that, that company -- I always say, what's a good merger? Two companies together can accomplish what the either couldn't accomplish on their own. 1 plus 1 equals 3, 4, 5, and we thought clearly, that's what we were getting with the NewCo.

Now in terms of the governance, you asked me about governance. I thought, quite frankly, that the NewCo governance structure is strongly directionally correct. So let me talk about that. So obviously, we announced much of the leadership team. Robert Coury is Executive Chairman. Mike Goettler, who's a former Pfizer employee, is going to be CEO. Rajiv will continue as COO, and then we will mutually select the CFO of the company, kind of point one. Next, on the Board, we -- basically, there's 13 members on the Board. Mike Goettler will be on the Board, and then we'll select, we Pfizer, 3 additional Board members. And obviously, Robert Coury will be on the Board, and he'll select 8 additional Board members. The company will move from being a Netherlands-based company to a U.S.-based company incorporated in Delaware, which we think is very shareholder-friendly, where the Netherlands is questionable in terms of shareholder friendliness. So I thought that was very good. And then if you look at the board itself, it will be completely declassified. I believe it's by 2023. So we'll have some staggered voting for a couple of years and then a completely declassified Board by 2023. So from a governance perspective, if you look at the company today and then you look at NewCo, I thought overall, a lot of improvements were made.

David Reed Risinger - Morgan Stanley, Research Division - MD in Equity Research and United States Pharmaceuticals Analyst

Excellent. Maybe we could pivot to Pevnar. So obviously, good news on the 20-valent today, so congratulations on that. I guess it'd be helpful to have you talk a little bit about that opportunity for the 20-valent as you see it. Obviously, there's going to be a brief period where Merck will have its 15-valent on the market, but clearly, yours offers broader coverage. So your thoughts on that market opportunity would be very helpful.

Frank A. D'Amelio - Pfizer Inc. - CFO & EVP of Global Supply & Business Operations

Sure. So by the way, we've had positive results on the 20 for Adult, and now this morning, we issued the release. We had some positive preliminary data on the Pediatric, right, which was very good, should lead to a Phase 3 start the middle -- beyond the middle of next year. So in terms of the opportunities, and obviously, you mentioned one of our competitor's products, I see significant opportunity for 20. And if you look at kind of where 20 is and when we think that gets to market versus the competitive product, within 6 months, give or take, we think. And so from that perspective, when you look at history, think about SYNFLORIX and 13. 13 kind of really took the market, right? We view vaccines very much as almost a winner-take-all marketplace. And so I think if you're competing with -- if you're looking at -- if you're a government in the U.S., you're the customer and you're looking at X values, X (inaudible) types, and then a few months later, you're looking at X plus, some more (inaudible) types, many of which is significant in terms of differentiation. It seems to me, based on history, that customer is going to go for 20, and history would suggest that that's exactly what would happen. So we're very optimistic about 20. And like I said, all the preliminary data has been quite good.

David Reed Risinger - Morgan Stanley, Research Division - MD in Equity Research and United States Pharmaceuticals Analyst

Excellent. Let me pause there and see if there are any questions from the audience. Yes. If you could just wait for the mic, please, right behind you.

Unidentified Analyst

Frank, one thing -- are you trying to -- when you give guidance, updated guidance, is there going to be enough information where you think investors are thinking to themselves, maybe earnings power is greatly underappreciated by 20% or so to where, when we look at the shareholder value, that that gap closes from when the deal was announced?



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Frank A. D'Amelio - Pfizer Inc. - CFO & EVP of Global Supply & Business Operations

I missed the first part of the question.

David Reed Risinger - Morgan Stanley, Research Division - MD in Equity Research and United States Pharmaceuticals Analyst

Do you want to just repeat that?

Frank A. D'Amelio - Pfizer Inc. - CFO & EVP of Global Supply & Business Operations

Yes, would you, please? I'm sorry.

Unidentified Analyst

Sure. And what I'm trying to gauge is just the magnitude of how you think the earnings power is underappreciated.

Frank A. D'Amelio - Pfizer Inc. - CFO & EVP of Global Supply & Business Operations

The magnitude of how our 2020 numbers are underappreciated?

Unidentified Analyst

Yes.

Frank A. D'Amelio - Pfizer Inc. - CFO & EVP of Global Supply & Business Operations

Yes. So without putting new numbers out, which is kind of what you're asking me to do, I mean, what I would say is exactly what I said before, which is I set the bar low. Clearly, the intent is when we come back with our guidance for, call it, the end of January 2020, our intent is to improve upon those numbers, and obviously, I'll provide detail at that time. So that's -- I know you'd like a little more than that, but like I said, I'm still early in my operating planning process. Quite frankly, I want to make sure I give you numbers that are hopefully better and that we're going to nail. So maybe...

Unidentified Analyst

There's a question here too, Dave.

David Reed Risinger - Morgan Stanley, Research Division - MD in Equity Research and United States Pharmaceuticals Analyst

Oh, sure. Another question up front, right here.

Unidentified Analyst

So far, this year, 33 states put on price restrictions on pharmaceuticals. Are these state-imposed price restrictions having any impact on Pfizer?



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Frank A. D'Amelio - Pfizer Inc. - CFO & EVP of Global Supply & Business Operations

Sure. So let me do it this way. Let me talk about drug pricing kind of at a more macro level because it captures everything, do you follow? So let me run some numbers, and then I'll answer the question. And maybe I'll even weave in a little bit of Washington D.C. into this answer if that's okay.

So let me run some numbers. Last year, Pfizer global pricing, global pricing, minus low single digits. U.S. last year, minus low single digits. This year year-to-date, global, minus low single digits; U.S., minus low single digits. Is all of this, I'll call it, talk having an effect on our pricing? The answer is yes. By the way, but it's been manageable. And you've heard Albert, our CEO, I think he said in the first earnings call -- he basically said, we don't see price as driving growth for the foreseeable future. So I think the short answer is clearly, if you look at those numbers I just quoted and you go back to when I came here, would I have been quoting those numbers? No. We'd be quoting different numbers. So kind of point one.

Now in terms of drug pricing in general and what's going on in Washington, I think what we should expect is there'll probably be a bill that comes out of the House. There'll be a bill that comes out of the Senate. But I just -- I don't know. I really can't predict what's going to happen on drug pricing. It's so volatile right now that it's just really difficult to predict. And we also got the presidential election, the Democratic primaries. I think if anything, we'll see noise levels go up over the next couple of months versus kind of staying steady or going down just given the timing of this and the fact that drug pricing pulls very well politically.

Maybe 2 other things to add to this. One, please note that we obviously stay very engaged in the conversation. We want to be proactive in terms of making sure opposition is heard down in Washington, D.C. And many of us, including myself, get down there and make sure we have the conversations that need to be had. And at a macro level, we still stand where we were earlier in the year, when Albert testified in front of Congress. And if you were to say to me, what are the things that -- the problem we're trying to solve and then what -- how do you solve that problem, we think the core problem is patient out-of-pocket expense.

Now when people go to a drugstore and pick up a drug, they don't know what the list price of the drug is. They know how much they are paying at that transactional level. So we think the things to do are get our rebates, have the rebates passed directly to the patients that are consuming the medicine. That'd be the first thing to do. Put a cap on patient out-of-pocket expense, go to volume-based outcomes where appropriate and then finally creating a competitive marketplace for biosimilars. Those are the things that Albert talked about when he testified in front of Congress earlier in the year. We believe that those are the things that continue to be -- those are the solutions that we think continue -- we continue to push in D.C.

And to me, the big ticket item is the rebates. We pay lots of money in rebates. And what happens today is those rebates are used to reduce the per member, per month premium for all members. So we really think those rebates have got to go to the patients, to the members that are actually consuming the medicine. But the numbers have changed. Those minuses, I would have been quoting those numbers 10 years ago. The rhythm of the numbers has changed. So the short answer is it's had an impact.

David Reed Risinger - Morgan Stanley, Research Division - MD in Equity Research and United States Pharmaceuticals Analyst

Very helpful. Maybe we can pivot to the pipeline. Obviously, Pfizer's pipeline has been growing. And that scenario of rising enthusiasm, how would you frame it for the audience? What are some of the key things that we should be considering?

Frank A. D'Amelio - Pfizer Inc. - CFO & EVP of Global Supply & Business Operations

Sure. So I mentioned this before. So I'm here 12 years now. The pipeline is -- from my perspective, our pipeline is the best it's been since I've been here by a lot. And so maybe let me mention a few of these, and if I screw any of these up, Chuck will jump in and help me. So Phase 3 readouts next year, PALLAS and PENELOPE from Ibrance, the Xtandi EMBARK, Prevnar 20 Adult. So those are the readouts for next year. Chuck, did I miss -- then you go to Phase 3 starts for next year. There will be Prevnar 20 for Pediatric, then the older rare disease, so the hemophilia A, the hemophilia B, the gene therapy program for Duchenne, and then there'll be a couple of other vaccines, pentavalent for meningitis and then a maternal vaccine. And if you look at behind that, right, the proof-of-concept readouts for next year, we'll have TYK2s for psoriatic -- for psoriasis, psoriatic arthritis, dermatitis, and then we'll have a JAK3 for vitiligo.

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So if you look at the breadth and depth of the pipeline, it's not like we basically were a one-trick pony, right? We're kind of -- before I got there, remember, when I got to Pfizer, they talked about this drug called cosyntropin, and that was going to be the solution for Lipitor. And that turned out to not be the solution for Lipitor. We're not kind of banking all of the pipeline for the future of the company on an individual program. We've got depth and breadth in our pipeline right now. Like I said, years ago, we didn't have anything quite like this. So those are the ones that I'd probably call out.

David Reed Risinger - *Morgan Stanley, Research Division - MD in Equity Research and United States Pharmaceuticals Analyst*

Okay, very helpful. And then maybe we can just finish up just on your M&A strategy.

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

Sure.

David Reed Risinger - *Morgan Stanley, Research Division - MD in Equity Research and United States Pharmaceuticals Analyst*

So how -- maybe balance that obviously -- my sense is that you'll probably grow the dividend at a little bit slower rate. You'll want to plow some money back into, obviously, future M&A, but we'd love to hear your perspective.

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

Sure. So let me punctuate your point about the dividend. I said this on the call, which is -- maybe let me talk a little bit about just -- we and I said on the call, we'd keep our shareholders whole. And in a few of investor meetings, there was a little bit of confusion on this, so let me just make sure I clear the air on that. Then I'll mention the dividend in terms of the rhythm going forward, and then I'll talk about M&A.

So first, on the dividend, one of the things I talked about was keeping our shareholders whole. So we keeping our shareholder whole would be RemainCo plus NewCo. So the way to think about this, right, Mylan today has 515 million shares. The new company will have 1.2 billion shares. The 1.2 billion shares is just the 515 million divided by the 43% that Mylan will own of the new company. Everybody follows so far? So then Pfizer shareholders will get 685 million shares. You put that over our current 5.6 billion shares outstanding, exchange ratio was about 1.2%, but the key number is that 1.2 billion shares outstanding. Now on the call, Robert Coury said NewCo is going to generate about \$4 billion in free cash flow. They'll use greater than or equal to 25% of that to dividends. So once you have that, you can go to work. You take the \$1 billion over the 1.2 billion shares outstanding. It's \$0.83 per share in terms of the NewCo based on those numbers. Then it's simple. If you have 100 shares of Pfizer today, based on that exchange ratio, you'll get 12 shares of NewCo. 12 shares of NewCo at \$0.83 a share is \$10. And then Pfizer would pay \$134. That \$134 plus that \$10 is the \$144 that we pay today. So that's how Pfizer and NewCo would keep our shareholders whole. That doesn't assume any action come December.

Now to your point about going forward. Our operating cash flow goes from, in a steady-state, \$15 billion, \$16 billion, call it approximately \$15 billion, to \$11 billion or \$12 billion. So what I said on the call was, one, we're going to keep our shareholders whole, NewCo and RemainCo, and we'll continue to have dividend increases subject to Board approval, but they'll be lower than they've been in the past. And if you look, since we did the Wyeth deal, we raised the dividend every year like a clock \$0.08. And so you shouldn't expect \$0.08 going forward is what I said on the call.

Now on M&A strategy. If you look at what we've been doing on our M&A strategy, our M&A strategy is basically in areas of strategic therapeutic areas: oncology, inflammation and immunology, internal medicine, rare disease, vaccines. If you look at what we've done this year, Array, oncology; Vivet, Therachon, rare disease. And our focus has really been on, I'll call it, late Phase 1 -- late-stage Phase 1 to late-stage Phase 2 because it's really focused on that post-2025 period, when our LOEs start to kick in, in a material way, Eliquis, Xeljanz. By the way, the way a normal innovative business should see LOEs kicking in. In terms of size, it'll be more like Vivet and Therachon. And the one last thing I'll say is we are not looking at big deals.



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I can never get -- every time I get asked about M&A, I always get asked about big deals. We are not looking at big deals. We are not looking at mega deals.

David Reed Risinger - *Morgan Stanley, Research Division - MD in Equity Research and United States Pharmaceuticals Analyst*

Excellent. That wraps it up. We're out of time. We covered a lot of ground. Thank you so much again.

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

Thank you, Dave. It's always a pleasure. Thank you, everybody. Appreciate your time and interest.

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