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PRESENTATION

Geoff Meacham - *Barclays Capital - Analyst*

Okay, welcome to the second day of the Barclays Global Healthcare conference in the afternoon. I'm Geoff Meacham, the senior biopharma analyst here and I have Paul Choi from my team on the stage as well. And we're pleased to be joined by Frank D'Amelio who is the CFO of Pfizer, Frank welcome.

Frank D'Amelio - *Pfizer Inc. - Executive Vice President, Business Operations & CFO*

Thanks, Geoff. Thank you very much.

Geoff Meacham - *Barclays Capital - Analyst*

So we're going to get into some Q&A here, but Frank if you just want to say a couple of things to kick it off.

Frank D'Amelio - *Pfizer Inc. - Executive Vice President, Business Operations & CFO*

Thank you. So I thought maybe I'll just spend a minute or two and just talk about the rhythm of the business, how we've been doing over the last couple of years. I run some numbers and then we'll get into the Q&A.

So if you look at 2016, our revenue number was $52.8 billion that was operational revenue growth of 11%. If you adjusted that for Hospira, we'd have operational revenue growth of 5%. If you look at our EPS for 2016, we printed $2.40, in 2015 it was $2.20 so 9% operational EPS growth. If you adjusted that for foreign exchange, roughly twice the number, the number would have been about 18%, 19%.

If you look at our guidance for 2017, and if you adjust our guidance for the Hospira Infusion Systems business which we sold and then for foreign exchange once again, revenues are growing operationally 4%, EPS is growing 10%. That 4% in 2017 will be the third consecutive year of operational revenue growth for the Company. So just a little bit in terms of the rhythm of the business 2016 over 2015, 2017 over 2016, maybe I'll stop there.

Geoff Meacham - *Barclays Capital - Analyst*

Perfect. Yes I think we're going to start off maybe with product portfolio kind of questions and we'll obviously get into DC issues, tax reform, drug pricing, just things like that. Let's start first with Inflectra, how does Pfizer think about it, is it a portfolio approach of biosimilars looking over the long-term, and maybe just, I know it's early, but just give us some early data points from the launch so far?

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Frank D'Amelio - *Pfizer Inc. - Executive Vice President, Business Operations & CFO*

So, in the US we only launched in December. So, to punctuate your point, I think it's too early to tell. But if you look at Inflectra in Europe, it's been on the market in Europe for three years. We have 30% share in Europe, now it varies widely on a country to country basis, but 30% share all-in in Europe. But the US could follow a similar uptake path as Europe, but I just, I don't want go there yet, because it's just too early to tell.

We have Inflectra on the market, we have several more in Phase 3 that we're looking to and get to the marketplace. We're optimistic, we're bullish. Last year, we did $319 million in biosimilar sales. Obviously, in our guidance this year for revenue we've assumed some healthy growth in the biosimilar area. But in terms of Frank, you asked the projections, I think it's just too early to tell at this point.

Geoff Meacham - *Barclays Capital - Analyst*

All right. And when you think about the pricing component to it, what's the idea here that you want to set a low bar initially and then come later on and obviously, you'll have more biosimilars entering the TNF space. So do you expect further downward pressure on the back of that?

Frank D'Amelio - *Pfizer Inc. - Executive Vice President, Business Operations & CFO*

So if you think about how we thought about our initial price on Inflectra, it was, we did a 15% discount off list, so one of the questions is Frank, why only 15%? That was kind of one of the questions we got. I think the way to think about this was one, we can discount less that. So clearly that 15% is kind of a wack we can discount off that. And then two, it was our first market relative to biosimilar pricing.

So the question becomes, how low you want to go with your initial price knowing that price really can only go down? So that was at least the calculus, we try to work our way through relative to what price to initially come out at relative to the branded products in terms of discount on list, so we came up with the 15%. So once again it's early, we're watching this, we're learning. Obviously, whatever learnings we gather will apply to our future thought process on pricing. But just too early to tell.

Geoff Meacham - *Barclays Capital - Analyst*

Okay. And just when we turn to the Ibrance business, obviously you have a new competitor in Novartis now, what's the landscape or what's kind of the view forward when you think about the competition and would you expect there to be some downward pressure on pricing there? Obviously, you dominate the market in terms of share, but probably won't change materially, I suspect.

Frank D'Amelio - *Pfizer Inc. - Executive Vice President, Business Operations & CFO*

So once again on Ibrance, we did $2.1 billion in Ibrance sales last year, $2.135 billion, significant growth on a year-over-year basis. So obviously, Novartis came out with a product, Kisqali, I think it is how it's pronounced. Now if you look at their label, they have certain warnings and patient monitoring in their label that we don't have in our label, when you compare label-to-label, which is good for us. If you look at our product, we've been on the market now two years, we have two year lead, we have good experience in the market. And then you know we have the PALOMA-2 trial, where that data will be incorporated into the label.

And then if you think about okay, Frank you've got another competitor, from my perspective another competitor will have more -- more sales people out in the market detailing the product. From my perspective, that's good for the class to develop more awareness of the class, I think we'll benefit from that additional awareness relative to the class.

If you ask me about pricing, I believe our competitors' pricing in which the initial dose came out comparable to our price and then obviously they got a different approach on kind of next dosing and particularly if it's lower than our dosage time will tell, but we think net-net we love our Ibrance franchise, we think it's going to continue to grow and we think competitors into marketplace have to deal with a product that is embedded very favorably in the marketplace. And quite frankly with data that we like relative to our product.

Geoff Meacham - *Barclays Capital - Analyst*

And just turning to the rest of it, let's call it the oral cancer franchise, so Xtandi. There's been some, I think it's a little bit of surprise for folks when now that you have the label for TERRAIN, the study in the extended label for the TERRAIN study, you haven't quite yet seen a move upstream adoptions by urologists, what's the -- should we be patient on that, is that a signal that it may take more resources that needs to be deployed behind it?

Frank D'Amelio - *Pfizer Inc. - Executive Vice President, Business Operations & CFO*

So it is once again, we bought Medivation, we closed that deal I believe in September. So it's early yes, you know if you look at the scripts, I think the scripts are doing quite nicely on Xtandi. If you look at the potential market for that, I think all-in, like one in four urologists that could be prescribing it, are prescribing it. So I think there is lots of opportunity there for us to kind of make headway and we're good at this in terms of getting feet on the street and getting the detailing done and demonstrating the value add.

So I just, I think it's just, it's just, it's one of those we're building, we're grinding, we're building it's going to take some time. Relative to our business plans, in fact when we did the deal, we didn't expect this to do anything other than what it's pretty much doing right now. So no kind of significant surprise relative to the rhythm of the numbers, but it's early, we got to see, time will tell.

By the end of year, we will have much better feel for this, but if you look at the population to markets that are there, there are lots of opportunity for us to really penetrate and grow that product. Our job now is to go do it.

Geoff Meacham - *Barclays Capital - Analyst*

And longer term with [M0] population that presents quite an opportunity for you, but that's maybe few years away?

Frank D'Amelio - *Pfizer Inc. - Executive Vice President, Business Operations & CFO*

Few years away. Yes, at least that's what I think currently.

Paul Choi - *Barclays Capital - Analyst*

Okay. So maybe staying within oncology, but shifting to immuno-oncology. So, you've got your first product here in registrational stage for merkel cell, which is an interesting small but attractive niche indication.

So can you maybe talk about how you want to develop your broader immuno-oncology portfolio in terms of either focusing on internal development and driving your current existing portfolio into other indications versus looking maybe perhaps externally and thinking about perhaps consolidating what is kind of a wide ranging R&D process across multiple companies and IO R&D?

Frank D'Amelio - *Pfizer Inc. - Executive Vice President, Business Operations & CFO*

So let me start by saying, we like our current hand. So we like our current hand, so if you look at our immuno-oncology franchise, you look at what we currently have. We have the PD-L1, that we obviously got from Merck KGaA, and I'll come back to inorganic and organic, we like those. We have our own PD-1. We have a 4-1BB, we have OX-40. We have obviously specific drugs that will attack the tumor directly like Ibrance for example. So we like the current hand we have to play.

We know that we're late to the game on, I'll call it monotherapy. So, merkel cell being our initial entry we're getting into the game. We think the real value opportunity is going to be in combo therapy. We think with the hand we have to play, we're going to be there.

So our job obviously is to execute, make that statement that I just said come true. We expect to be there, we have to make that happen, but we think that's going to be where the real value play is. Now if you look at the hand we have to play, the hand that we like, we've done that both organically and inorganically, right, so the PD-L1 was a deal that we did with Merck KGaA, avelumab, you look at the rest of the assets they're pretty much home grown.

So from my perspective going forward, we like our hand, but if there is opportunities to strengthen our hand whether it's immuno-oncology or any of our strategic therapeutic areas, we'll always look at those. If we think they'll make sense for our shareholders we consider them, and if they won't -- if they don't, we won't. But we've demonstrated in IO both inorganic and organic, our bias is just what can we do to create value for our shareholders. What can we do to strengthen our hand, while creating value for our shareholders. If there are opportunities to do that, we will consider it.

Geoff Meacham - *Barclays Capital - Analyst*

So let's turn to deals and then your -- touch a little bit on this with respect to IO. Maybe first talk about your thoughts Frank, on tax reform, and in a broader sense, does the proposals today, the rate changes materially change your opportunities to do deals, to deploy capital? And then when we'll get into repatriation.

Frank D'Amelio - *Pfizer Inc. - Executive Vice President, Business Operations & CFO*

Okay, sure. So my short answer is no. The way I think about this is, we do deals today, we value deals today based on the hand we've been dealt.

And so if you look in the last what, year and half, two years, we've done $40 billion in deals, with the three big deals, they make up the $40 billion being Hospira, Anacor, and Medivation. Hospira is $17 billion, Anacor $5 billion and change, Medivation $14 billion and change and some little bolt-ons here and there that we've done Sparks and things like that, but call it approximately $40 billion with the current tax regime. So obviously, based on the cost we've been built, when we did our valuation analysis, we believe that those deals would create value for our shareholders.

Now if there was tax, so you say Frank, what if there were tax reform, does that change your thinking? Well, it would change some of our calculations, but the metrics we look at, wouldn't change. Right, what are our metrics? Accretion dilution, how long does it take to get our cash back, return on invested capital, what year does the return on invested capital exceed our cost of capital, total rate of return. These are all the kinds of things that we look at.

How we calculate those numbers if we're using a lower tax rate if access to overseas cash is easier then the results will change, but we'll continue to look at the same metrics. The way I think about this just philosophically is if deals work in the current tax environment, if there were tax reform, then based on everything we currently understand today, and I could spend a few minutes on this if you like, but I think they'd work even more.

So, but if you look, wait, because wait is a bad four letter word, my reaction is if there is an opportunity do something today that works in the current environment with the current tax regime like we've done before we will go ahead and do it.

Geoff Meacham - *Barclays Capital - Analyst*

Got you. Okay, and then with respect to deal synergies, I know there is a lot of discussion obviously on preservation of jobs in the country. Do you feel like this for Pfizer or for the industry will be a significant factor going forward to have either not quite over state your synergies or somehow this got kind of stray away from discussions about your cost savings in the US?

Frank D'Amelio - *Pfizer Inc. - Executive Vice President, Business Operations & CFO*

So you know, depending on the kind of deal you do, so for example if you do a deal like Wyeth, Wyeth did many things, they put us in biologics, they put us in vaccines, put us back in the consumer business, strengthened our animal health business which is now Zoetis, help us in emerging markets.

But first point I want to make is, it depends on the deal. So you do a deal like Wyeth, it does a lot of things, but one of the other things it did is it presented a significant opportunity for cost synergies. We told you -- we told the Street on that $4 billion, we did better than $4 billion. We actually did a very nice job on the integration of that company.

And those other deals you do, like a deal like Anacor, well that isn't a cost synergy deal at all, that's a binary product, either works or it doesn't, and our job now is to execute and start to generate revenue from that deal.

Now, just kind of, I wanted to make sure. Now in terms Frank, synergies. So let's assume we're looking at a deal with cost synergies, which is the basis of your question. First, you got to look at where do the synergies come from? So you say Frank, there is cost, there is SG&A, and there is R&D. If you look at cost synergies in a typical deal, where do the bulk of the synergies come from? The bulk of the synergies really come from SG&A and R&D. We get some out of COGS, but COGS is typically the smaller of the three. The reason I'm saying that is, you talked about the administration and political sensitivity, clearly if you look at some of the focus has been on manufacturing jobs in the US, and of all the areas of cost synergies, that's the smallest one.

Now, in terms of Frank, approach, philosophical approach to a deal. My approach is simple, we analyze and we develop our synergy assumptions in an unencumbered way. When the maximum synergies we believe we can achieve, because by the way, I believe that's what my shareholders would want me to do, which is maximize the synergies because, what the synergies do they help maximize the return of capital to shareholders. So we will analyze it in a tax and in an unencumbered maximum way and then, quite frankly, once we have that, if there is tweaking we have to do here or there, and who knows if we would or wouldn't, but I want to know what the maximum number is, because quite frankly we're all set and done. That's the number I want to be able to deliver. So that's how philosophically we approach it.

Listen, we obviously are aware of the political environment, we obviously get down to Washington, we meet with many folks down in Washington, Ian is very active in Washington, I get down there periodically. So we get to talk with what I believe the right people we need to talk to and try to have constructive conversations with people that are receptive and very bright. But from my perspective as the CFO of the Company, my job is to get the maximum number we can do, unencumbered because I think that's always where we should start from.

Geoff Meacham - *Barclays Capital - Analyst*

And how is Pfizer's attitude towards deals with respect to say, appetite for risk, for a binary event, or for some sort of pipeline element versus leverage? I mean what -- has that evolved over the past say three to four years?

Frank D'Amelio - *Pfizer Inc. - Executive Vice President, Business Operations & CFO*

Well, I think our deal strategy has been very consistent. Hopefully, if you would, if you had heard me speak to a group like this three or four years ago, you hear me start by saying, we are agnostic to size. One of the neat things of working at Pfizer is, we have the ability to do big deals, a year ago we tried to do $160 billion deal, so we have the capacity to do very big deal. So, Ian and myself, I think we always say when it comes to deals, we're agnostic to size, our compass has been, is and will continue to be delivering shareholder value. I mean that's literally how we think about it.

Binary deals, like Anacor was a very binary deal. We spent $5 billion and change. Eucrisa either got approved or it didn't. Now we obviously thought it was going to be approved and it turned out to be right. It got approved in December, it had a January 7 PDUFA date when we did the deal. It got approved in December, but it could have gone wrong and then we would have spent $5 billion and got nothing for it, right.

So I much prefer deals that have multiple value stacks. You know you do a deal like Medivation, there is multiple value stacks right. There is the current metastatic product, then there is the potential value for non-metastatic, then there is the PARP, there is the PD, there is some cost synergies. So you get multiple value stacks when you value that kind of a transaction, where at Anacor it's basically one value stack, you're binary versus multiple.

I mean obviously as the CFO, I like things with multiple stacks because there is natural hedging that takes place. But hopefully I would say actions speak louder than words, hopefully our actions have demonstrated, we'll do both and once again based on our belief that it's going to be a deal that's good for the Company and for our shareholders.

Paul Choi - *Barclays Capital - Analyst*

Maybe just one more on the deal environment, with the biotech sector and pharma sector just finishing dead last in the S&P last year there's been a bit of a biotech reset so to speak with regard to valuation sales, how do you characterize valuations right now and does it, from your perspective make it more urgent to get to deals take advantage of where the biotech group is trading right now? And given this low rate environment and how does that sort of frame your thinking perhaps?

Frank D'Amelio - *Pfizer Inc. - Executive Vice President, Business Operations & CFO*

So, there is one thing I know with certainty about valuations, they will change. They will go up, they will go down, they will ebb and they will flow, it is the only thing I know with certainty about valuations and when you look at biotech deals and once again, one of the issues with I'll call it the acquisition math on biotech deals, and I'll get to the reset question after that, but one of the issues is what premium needs to be paid and then for the premium, what kind of synergies can you generate to justify the premium, what I mean so you got to do, I call it the acquisition math, that's some of the acquisition math that you do.

In terms of valuations and the reset, I think you got to look at it on a company-by-company basis and then even further is you look at it on the management and the Board of each company on a company-by-company basis, because even if the valuation is reset, has that company thought process relative to their valuation reset.

And I think one of the things that's always kind of an interesting event is the capital market event. Because I always think capital market events can very much all of a sudden reset, what the valuation of the company is. So that will happen all the time.

I think in terms of how we look at it, we look at it on a company-by-company basis. If you look at when we bought Anacor, you could make the case that we bought Anacor at a time when there was a reset on value, but we look at it on a company-by-company basis, there is no question there has been a reset overall. But, you know by overall, you buy on the company-by-company -- you analyze on a company-by-company basis. So very situational, very company by company.

Geoff Meacham - *Barclays Capital - Analyst*

While on the topic of DC, obviously drug pricing has been in the headlines for over a year. I think right now most characterize it as more of a back burner issue with repeal and replace being the lead issue with regard to restoring access. But is there -- has Pfizer's philosophy changed? What is the pitch, when you're up in Washington, just with respect to the industry kind of contribution to the drug pricing debate?

Frank D'Amelio - *Pfizer Inc. - Executive Vice President, Business Operations & CFO*

So, in answer to your question, short answer is, no. I want to start with, has our philosophy changed, has our practice changed? No. Let me embellish, but short answer is no.

So if you look at drug pricing, let me just run some numbers and then I'll answer the question. So if you look at healthcare cost in this country and you look at prescription drugs as percentage of healthcare costs, for the last few decades, it's been 10% to 12%. All projections going forward are, it's going to be 10% to 12% kind of point one. Point two, if you look at healthcare cost as a percentage of GDP, this country approximately 17%, of that 17% approximately 2% is prescription drugs.

If you look at Europe, when you look at healthcare cost as a percentage of GDP, it's 8% or 9%, call it roughly half of what's spent here in the US. Prescription drugs is 1.5% of that 8% or 9%. You compare that 1.5% to the 2%, there isn't a whole big difference, between what we spend on prescription drugs and what Europe spends on prescription drugs as a percentage of GDP.

So part of the reason I'm running through the numbers is, when we are talking to folks in Washington, we are communicating these kinds of facts, right, facts are our friends. These kinds of facts are helpful.

In terms of our policy on pricing, the way I think about it is we have been, we are, we will continue to be very responsible with our drug pricing. The issue becomes somebody does something that's questionable, gets all over the press, and in a sense the whole industry takes a hit, like the whole industry kind of gets a hit for something that somebody did, that's quite, that could be questionable.

The way we think about this philosophically, because you asked me about philosophy is, we want patients to have access to the absolute latest medical advances, but to do that, we strongly advocate market-based pricing and market negotiations.

And the way we also think about this, the way I think about this is, as long as we continue to develop and bring to market therapeutically differentiated drugs, particularly in areas of large unmet medical need, we will significantly benefit patients and we, Pfizer will significantly benefit our shareholders. That's the way we think about this, but the short answer to your question is, no.

Paul Choi - *Barclays Capital - Analyst*

Frank, when we think about your prioritization of capital and with the potential for repatriation, is there any sense that the dividend maybe takes the greater priority going forward and if you're able to bring more cash or how do you sort of think about rank ordering if you are able to increase your access to cash going forward, deals versus dividends and share repo going forward?

Frank D'Amelio - *Pfizer Inc. - Executive Vice President, Business Operations & CFO*

So if you look at our priorities for capital allocation, they've really been the same four priorities for years, right it's been -- and they're all important, dividends, share buybacks, investing in the business, mergers and acquisitions.

If you look last year, we did $5 billion in buybacks, we paid out almost $7.5 billion in dividends, and we did $20 billion in deals. That's $32 billion of capital allocation. There aren't many companies that can do those kinds of things right. To the extent that we had unencumbered access to our overseas unremitted earnings because remember, overseas unremitted earnings are a much bigger number than cash, you've got to separate the two.

From my perspective, our capital allocation wouldn't change. They will still be the four focus areas, nothing will change. In terms of the dividend, we've been increasing our dividend very consistently now since the Wyeth acquisition. When we did Wyeth it was $0.64, every year since that year, we've raised it $0.08, literally like a clock right, $0.64, $0.72, $0.80, $0.88, $0.96, $1.04, $1.12, $1.20, $1.28, right through the whole process. Every time we raised the divided, $0.08 that's over half a billion in cash, with 6.2 billion shares outstanding right, $0.08 gets you roughly half a billion in cash.

So the allocations today, will remain -- the priorities today will remain the priorities. And then in terms of how we allocate it between those priorities, once again, I think it's based on opportunity. You do buybacks for example, you get a certain return. The question is can you take that money and do something else and get a better return than the return you get on a buyback. Right, so you got to trade over this often, you work your way through, which is what we do.

Geoff Meacham - *Barclays Capital - Analyst*

With that we're out of time, so thanks Frank.

Frank D'Amelio - *Pfizer Inc. - Executive Vice President, Business Operations & CFO*

Thank you all. Thank you all for your time and interest everybody.
