

01 | Pfizer, Inc.

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HEADCOUNT	100,000
YEAR ESTABLISHED	2000
PHARMA REVENUES	\$45,083 +2%
TOTAL REVENUES*	\$48,371 +2%
NET INCOME	\$19,337 +139%
R&D BUDGET	\$7,599 +5%

DRUGS APPROVED/LAUNCHED

Drug	Indication
lipitor	heart attack, stroke risk
chantix	smoking cessation
lyrica	fibromyalgia
exubera	diabetes mellitus - type I and II
eraxis	fungal infections
sutent	renal cell carcinoma, gastrointestinal stromal tumor

DRUGS CANCELLED

Drug	Indication
torcetrapib	hypercholesterolemia
pf-3512676	Non-small-cell lung cancer

DRUGS PENDING APPROVAL

Drug	Indication
fesoterodine	overactive bladder
maraviroc	HIV (approvable)
dalbavancin	skin and skin structure infections

DRUGS IN PHASE IIB AND BEYOND

Drug	Indication
cp-945598	obesity
zithromax/ chloroquine	malaria
lyrica	epilepsy monotherapy
axitinib	thyroid neoplasm, pancreatic cancer
cp-675206	melanoma
sutent	breast cancer, non-small-cell lung, colorectal, and liver cancers
pf-3512676	lung cancer
cp-751,871	non-small-cell lung cancer
cp-675,206	melanoma

EARLY RESEARCH PROJECTS

Drug	Indication
uk-432097	COPD
pf-610355	asthma
cp-866087	obesity
cp-800569	atherosclerosis
pf-489791	hypertension
pf-915275	diabetes mellitus-type II
pf-277343	alopecia
uk-369003	lower urinary tract symptoms
pf-446687	sexual health

pf-868554	hepatitis C virus
pf-708093	bacterial infections
cp-751871	rheumatoid arthritis
cp-903397	schizophrenia
pf-3084014	Alzheimer's disease

DRUGS COMING OFF PATENT

Drug	Indication
zoloft	antidepressant (2006)
zithromax	antibiotic (2006)
zyrtec	allergy (2007)

TOP SELLING DRUGS

Drug	Indication	\$	(+/- %)
lipitor	cholesterol	\$12,886	6%
norvasc	antihypertensive	\$4,866	3%
zoloft	antidepressant	\$2,110	-35%
celebrex	rheumatoid arthritis	\$2,039	18%
viagra	erectile dysfunction	\$1,657	1%
zyrtec	allergy	\$1,569	15%
xalatan	glaucoma	\$1,453	6%
lyrica	epilepsy, neuropathy	\$1,156	297%
detrol	overactive bladder	\$1,100	11%
camptosar	colorectal cancer	\$903	-1%
genotropin	HGH deficiency	\$795	-2%
zithromax	bacterial infections	\$638	-68%
neurontin	epilepsy	\$496	-22%
zyvox	bacterial infections	\$782	27%
geodon	schizophrenia	\$758	29%
cardura	hypertension, prostatic hyperplasia	\$538	-8%
vfend	fungal infections	\$515	30%
alliance revenues**		\$1,374	29%
aricept	Alzheimer's disease		
macugen	wet macular degeneration		
mirapex	Parkinson's disease		
olmetec	hypertension		
rebif	multiple sclerosis		
spiriva	COPD		

Account for 79% of total pharma sales, same as in 2005.

* Revenues reflect sales of Consumer Healthcare unit.

** Listed as Alliance Revenues: Aricept revenues are shared with Eisai; Macugen revenues are shared with OSI; Mirapex and Spiriva revenues are shared with Boehringer-Ingelheim; Olmetec revenues are shared with Daiichi Sankyo; Rebif revenues are shared with Seroxo

THE WAR OF ATTRITION CONTINUES AT PFIZER. Two more of its top performers faced massive damage from generic competitors in 2006: Zolofit shed \$1.1 billion in sales (-35%) while Zithromax lost \$1.4 billion (-68%). This follows \$2.5 billion lost to a pair of generics in 2005 (Neurontin and Diflucan). On tap in 2007? Generics for Norvasc and Zyrtec, which had combined branded revenues of \$6.5 billion for Pfizer in 2006.

Pfizer lost a court case in March 2007 that opened Norvasc up to a generic competitor in the U.S. six months earlier than scheduled. The result? An estimated \$1.2 billion in additional lost revenue for the year, courtesy of Mylan. (See "Expired" for the company's list of its pending expirations.)

This is all a precursor to the expiration of Lipitor's patent, currently set for 2010 (2011 for the enantiomeric patent, with pediatric exclusivity). Pfizer had a strategy in place to manage Lipitor's expiration by combining it with CETP-inhibitor torcetrapib, a powerful HDL-booster. The program was controversial, since Pfizer originally planned to market the product only as a combo-pill. Many interpreted that as a ploy to sustain Lipitor sales at the expense of other statins. (Pfizer has some history with combo-pills, marketing Caduet, a combo of Lipitor and Norvasc, since 2004; it was up 99% to \$370 million in 2006 sales.) The combo wouldn't have saved the entirety of Lipitor's branded sales, but it would've helped torcetrapib establish itself as Pfizer's new standard-bearer.

Unfortunately for Pfizer, torcetrapib failed its Phase III trial in December 2006, with the arm taking the combo-pill demon-

strating a 60% higher mortality rate than the Lipitor-only arm. All development on the drug was cancelled, and Lipitor's post-patent future was thrown into doubt. This is a nightmare scenario for Pfizer, which now faces the out-and-out loss of a drug that comprises more than a quarter of its revenues. (I mean "unfortunately" as in "the negation of a fortune," by the way.)

As 2010 approaches, Lipitor may already be showing signs of age. The generic launch of simvastatin (Merck's Zocor) created a cheaper option for healthcare providers and patients, and left Lipitor with a net loss in U.S. prescriptions in 1Q2007, although global sales still rose 8%. The company predicted a "range of moderate growth to moderate decline" for Lipitor in 2007, due to the matrix of generics, payer pressures, market-growth models and other factors.

Pfizer has "implemented comprehensive plans" to "strengthen Lipitor's marketing position," according to its 1Q statement. Boosting its cause, Lipitor received approvals for five new indications, expanding the label to include secondary prevention for people at high risk of heart disease.

New Skipper

The bigger the ship, the slower it changes course. Shortly after last year's Top Companies report, Pfizer chairman and chief executive officer Henry McKinnell, Jr. stepped down in July 2006, to be replaced by Jeffrey Kindler, who previously served as general counsel. In May 2007, chief financial officer Alan Levin left the company, and R&D chief Dr. John LaMattina announced that he'll leave by the end of the year. In January 2007, Mr. Kindler announced the company's new, post-torcetrapib priorities in a meeting with analysts:

1. Maximize revenues in both the short and the long term.
2. Establish a smaller and more flexible cost base.
3. Create smaller, more focused and entrepreneurial business units that will enhance innovation and draw on the advantages of our scale and resources.
4. Actively and more meaningfully engage with customers, patients, physicians and other collaborators to provide them with greater value.
5. Make Pfizer a great place to work.

Now, these all sound like admirable goals, but when you read enough of these "business strategies," you realize they're barely even talking points. You can usually tell this by asking yourself, "Should I assume that the company was previously doing the *opposite* of any of these?"

Obviously, it's the implementation that counts. In expanding on these priorities, Mr. Kindler and other Pfizer executives revealed a number of concrete plans: build up its biologics and vaccines capabilities (as most of the other top companies on this list are doing), fire 10,000 people, close around half its manufacturing sites (from 2003 to 2008, the number is projected to drop from 93 to 48), reorganize both R&D and U.S. operations, and cut "at least three to four layers of management." The 10,000 firings (10% of the workforce) are closely tied to an esti-

THE LOWE DOWN

PFIZER IS, ONCE AGAIN, THE BIG DOG of the industry. But it's no secret that they have plenty of similarly big problems, as their actions over the last year have demonstrated. Above all, that Lipitor patent expiration is creeping along like a glacier, and will be about as easy to divert or mitigate. By itself, that's enough for any company to deal with, thanks very much, but Pfizer's also had some real horror-movie experiences in the clinic in recent years. Torcetrapib's unexpected failure is the largest of these, and (for better or worse) there's nothing that big in the pipeline to burst into flames next.

It's beginning to look like the company is here on Earth to show everyone in the drug industry that size is not necessarily the answer. And hey, maybe marketing isn't necessarily the answer, either: if it were, wouldn't Exubera be a gigantic hit by now? Given all the merger speculation that keeps cropping up every time a company gets into trouble, though, you have to wonder how many people are learning these lessons. And things like torcetrapib's fall may also be here to remind us how little we really know about this business, about our compounds, and much more besides.

—Derek Lowe

mated \$2.0 billion in cost savings Pfizer plans to generate, while the R&D reorg includes shutting down three facilities in Michigan, getting out of gastroenterology and dermatology research, and consolidating research teams on therapeutic areas into one of four major hubs.



As part of its restructuring, Pfizer announced that it plans to sell off its HCO site in Feucht, Germany.

Accentuate?

There have been some bright spots for Pfizer. Most notably, Lyrica sales blew through the roof in 2006, almost quadrupling to \$1.2 billion. The drug was approved for fibromyalgia in June 2007 after expedited review. Pfizer was also successful in rebuilding the U.S. market for Celebrex. A COX-2 inhibiting arthritis treatment, Celebrex received a “black box” warning a few months after the Vioxx withdrawal in 2004. The drug nonetheless posted 18% growth in 2006, crossing the \$2.0 billion mark. It was up 22% in 1Q2007, and the company began a new DTC campaign for Celebrex in April.

Last year, I asked (in a photo caption), “Will Exubera inhaled insulin be the hit Pfizer needs it to be?” The answer looks to be “no.” The company referred to Exubera’s sales as “disappointing,” and updated its projections to reflect a “slower rate of market acceptance” through 2008. This led Bepak, the company that makes Exubera’s innovative inhaler, to lay off “a significant number” of the 160 employees involved in that product. Launching an innovative system into the crowded

ACQUISITIONS

Target: BioRexis

Price: not disclosed

Announced: February 2007

What they said: “We are investing in a company with an exciting new technology and potential new product candidates in diabetes.”

—Edmund P. Harrigan, M.D., senior vice president, Worldwide Licensing and New Business Development, Pfizer

Target: PowderMed Ltd.

Price: not disclosed

Announced: October 2006

What they said: “This acquisition is a strategic opportunity to enter the vaccine market and is part of our focus on broadening healthcare solutions for patients.”

—Jeffrey B. Kindler, chief executive officer, Pfizer

(but growing) market of diabetes treatment, Pfizer seems to be missing the boat. The company is readying an advertising campaign this summer to “reboot” Exubera.

In a Rich Man’s World

Pfizer isn’t going to go broke any time soon. The June 2006 sale of its consumer health unit to Johnson & Johnson (covered last year) brought in more than \$16 billion (net \$10.8 billion), which can go a long way in paying for licensing deals and smaller acquisitions. In April 2007, Pfizer spent some cash on a co-development deal with Bristol-Myers Squibb to bring along BMS’ anticoagulant apixaban. Pfizer ponied up \$250 million, with another \$750 million in milestones, 60% of development costs, and a 50/50 split of profits in the hopes that apixaban becomes the first oral treatment against blood clots to get FDA approval in half a century. (It may come in second if Bayer and

J&J get rivaroxaban approved first.)

The company is also working hard in oncology, with 20% of its development budget going into studies of cancer drugs. In May 2007, leading up to the American Society of Clinical Oncology meeting, Pfizer touted the depth of its oncology pipeline, announcing that it has 15 compounds in development, with three in Phase III, and four in Phase II.

Early in 2006, the FDA approved Sutent for GIST and advanced kidney cancer, marking the first time the agency had approved a new product for multiple indications. Sutent brought Pfizer \$219 million in 2006, and another \$102 million in 1Q2007, when it was also approved to treat advanced renal cell carcinoma. It's being investigated against a number of other cancers, including metastatic colorectal cancer.

Turn Up the Volume

It's admirable that Pfizer is being frank about the failure of the "biggest is best" model, particularly when it leads to the mentality of "blockbuster or bust" because there's no time to develop a sub-\$1 billion drug. In January 2007, Mr. Kindler told a group of analysts, "We need to be as effective at selling a large number of \$500 million drugs as we are at selling drugs with multibillion-dollar sales."

EXPIRED

THE BIGGER THEY ARE. . .? Pfizer has already lost billions to generics in the last several years, and now it's looking at a run of patent expirations that may leave CEO Jeffrey Kindler awake at night:

Norvasc	2007	Viagra	2012
Zytrec	2007	Detrol	2012
Camptosar	2008	Celebrex	2014
Aricept	2010	Chantix	2018
Lipitor	2010	Lyrica	2018
Xalatan	2011	Sutent	2021

It's a good thing Pfizer has Chantix under patent for another decade; I'd probably start smoking if I was working to fill that late-stage pipeline. —GYR

Shareholders (and analysts) aren't interested in "pretty successful" drugs; they want to see multibillion-dollar sales, especially from a company that leads its industry and has to demonstrate growth, not just cost cuts. They may *say* they want to see "a new Pfizer," but they really want to see a \$5 billion/year drug, not 10 \$500 million/year drugs.

Speaking of \$500 million drugs (estimatedly), Pfizer's new HIV treatment maraviroc received an "approvable" delay letter in June 2007 after unanimous recommendation from an FDA advisory panel. At press time, there's no official word on why the FDA didn't approve the drug, which will have the trade name Celsentri and is already on the market in 30 countries. Theories and rumors abound, but I don't feel that it would be fair to go into them till more facts come out.

One thing about those "\$500 million drugs": while Mr. Kindler touts their importance to the future of Pfizer, we should note that the company has cut its U.S. sales force by 20% and is in the midst of cutting its European sales force by the same percentage. Perhaps he was implying that the sales force can be much more productive in much smaller numbers.

We'll see if Pfizer has the discipline to stay the course on bringing along certain therapeutic classes and rationally cutting costs, or if it veers back into the M&A seas. ■