



## **Presentation on: Pfizer and the Pharmaceutical Industry**

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***Investment Analysis Group***

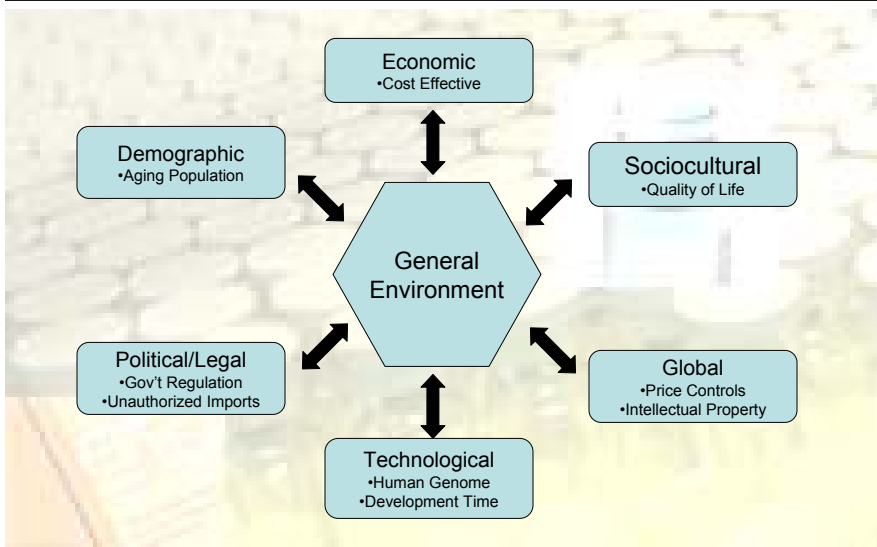
*February 15, 2002*

### **Presentation Agenda**

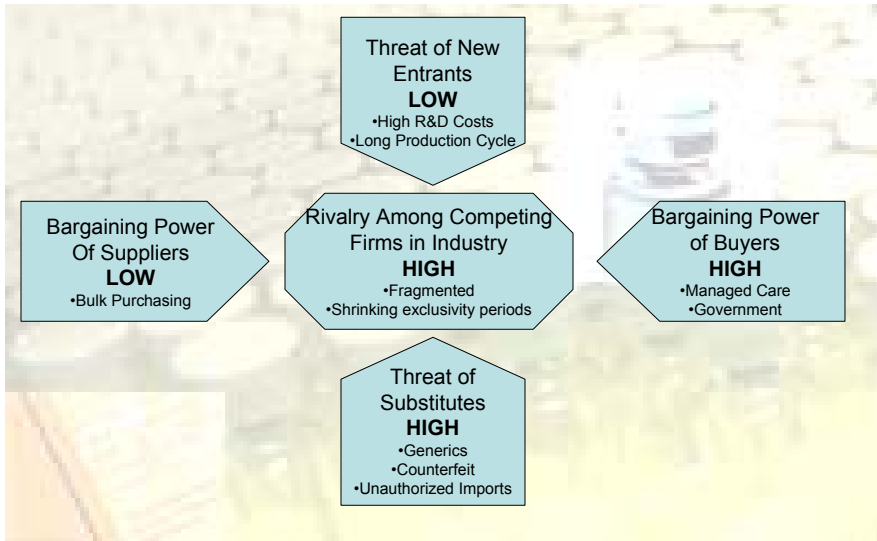


- Industry Overview: Research Based Pharmaceuticals
- Pfizer
  - Company Specifics
  - Performance
  - Growth Drivers
- Valuation
  - Comparables Analysis
  - DCF
- Recommendation

# Industry Overview



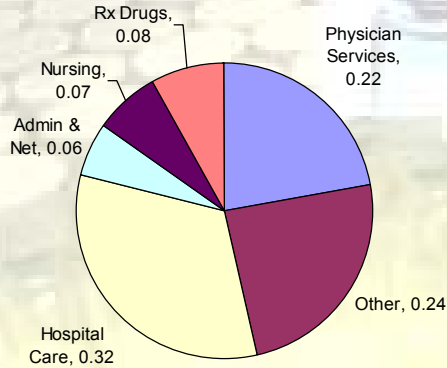
# Industry Overview



## Industry Overview



- Pharmaceuticals (Rx Drugs) only 8% of all health care spending



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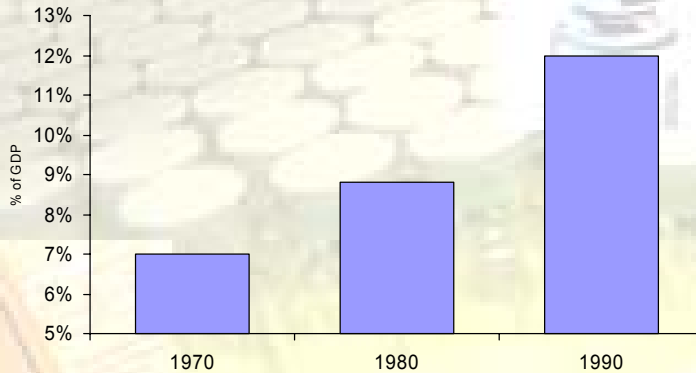
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## Industry Overview



- Health care growing as a percentage of GDP



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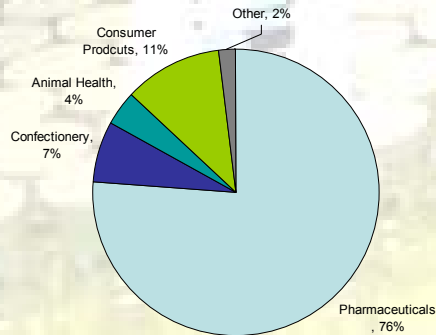
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## Pfizer: Company Specifics



- Research based, global pharmaceutical company
  - Pharmaceuticals
  - Confectionery
  - Animal Health
  - Consumer Products



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## Pfizer: Company Specifics



- Symbol/Exchange: PFE/NYSE
- Options: AMEX
- Institutional Ownership: 61.0%
- Shares Outstanding: 6,200.9 MM
- Market Cap: \$266,174.0 MM
- Average Daily Volume (000): 11,786,000
- Fiscal Year Ends: December

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## Pfizer: Company Specifics



### Pfizer Top Drugs, 2001

(dollars in millions)

Brand Name	Sales	% Pharma	Class of Drug/Disease
Lipitor	6,275	25%	Statin/Cholesterol Reduction
Norvasc	3,605	14%	Calcium Channel Blocker/Hypertension
Zoloft	2,405	10%	SSRI/Depression, OCD
Neurontin	1,735	7%	Epilepsy, Neuropathic Pain
Viagra	1,550	6%	Phosphodiesterase/Male Erectile Dysfunction
Zithromax	1,410	6%	Azalide Anitbiotic
Diflucan	1,060	4%	Antifungal
Zyrtec	910	4%	Non-sedating antihistamine/Allergies
Cardura	548	2%	Alpha Blocker/Hypertension & BPH
Accupril	590	2%	ACE inhibitor/Hypertension & CHF
Viracept	365	1%	Protease Inhibitor/HIV
Rpcardia XL	180	1%	Clacium Channcel Blocker/Hypertension

### Alliance Drugs

Celebrex	3,085	COX-2 Inhibitor/Osteoarthritis
Aricept	865	Acetylcholinesterase Inhibitor/Alzheimer's Disease

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## Pfizer: Performance



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## Pfizer: Performance



- 4<sup>th</sup> quarter sales growth higher than consensus estimates
  - 4Q EPS grew from \$0.27 to \$0.34 from previous year (22.9%)
  - Rebound in some of its non-core businesses
    - Consumer
    - Animal Health Division

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## Pfizer: Performance



- Performance of pharmaceutical products

### Sales Analysis, Key Growth Products (YoY)

(millions)

Drug	4Q:00	4Q:01	% Change
Norvasc	928	962	3.7%
Zoloft	587	646	10.1%
Zithromax	522	560	7.3%
Alliance Rev	348	411	18.1%
Viagra	380	415	9.2%
Lipitor	1,433	1,883	31.4%
Neurontin	371	498	34.2%

Source: Morgan Stanley

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- Cost control and profitability improvement

**Margin Analysis**

(percentage of sales)

	4Q:00	4Q:01	Comments
COGS	17.0%	16.4%	Lower from previous year despite one times charges and F/X effect
SG&A	37.5%	35.9%	
R&D	15.7%	16.8%	Increase R&D expenditures
Pretax Margin	29.9%	31.4%	
Net Margin	21.7%	23.4%	

Source: Morgan Stanley



- 4<sup>th</sup> quarter sales growth higher than consensus estimates
  - Stronger than expected growth of Lipitor
  - Double digit growth of Zoloft
  - Rebound in some of its non-core businesses
    - Consumer
    - Animal Health Division

## Pfizer: Growth Drivers



- Strong portfolio of drugs
- Low generic risk and patent expiration
- Efficient sales force
- Co-marketing, licensing & co-development partner of choice
- Continued integration of WLA businesses

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## Pfizer: Growth Drivers



- Largest R&D budget in industry, \$4.9 billion R&D expenses

### Pfizer Selected New Product Pipeline

Drug	Therapeutic Category: Indication	Description	Stage of Development	
			US	Europe
Tikosyn	Darivascular: atrial fibrillation	Antiarrhythmic	Market	Filed
Replax	CNS: migraine	5HT <sub>1D</sub> agonist	Phase III	Approved
Geodon IM	CNS: intramuscular formation	Atypical antipsychotic	Phase III	Market
Vfend	Anti-fungal: aspergillus infections	Azole Antifungal	Approvable	Filed
Spiriva	Respiratory: COPD	Bronchodilator	Filed	Filed
Pregabalin	CNS: epilepsy, neuropathic pain	Gamma-aminobutyric acid inhibitor	Phase III	Phase III
Lipitor	Cardiovascular: unstable angina, cardiovascular events	HMG Co-A reductase inhibitor	Phase III	Phase III
Avasimibe	Cardiovascular: dyslipidemia, atherosclerosis	ACAT inhibitor	Phase III	Phase III
Lasofoxifene	Metabolic: prevention of osteoporosis, breast cancer	SERM	Phase III	Phase III
Exubera	Metabolic: insulin dependent diabetes	Inhaled insulin	Phase III	Phase III
Neurontin	CNS: neuropathic pain	Gamma-aminobutyric acid inhibitor	Phase III	Approved
Darifenacin	Urological: urinary urge incontinence	Muscarinic receptor antagonist	Phase III	Phase III
Pagoclone	CNS: Panic attack	GABA <sub>A</sub> RM Analogue	Phase III	Phase III
rNF	Cardiovascular: stroke	Antiinflammatory	Phase III	Phase III
CI-1042	Oncology: head and neck cancer	Adenovirus	Phase III	Phase III
Capravirine	Infectious disease: HIV infection	NNRTI	Phase III	Phase III
CP122.721	CNS: depression	NK-1 antagonist, substance P	Phase II	Phase II
CP526.555	CNS: smoking cessation	Nicotine partial ntagonist	Phase II	Phase II
CP529.414	Cardiovascular: atherosclerosis	CETP inhibitor	Phase II	Phase II
Fosfluconazole	Infectious disease: antifungal	Fluconazole prodrug	Phase II	Phase II
CI-1034	Respiratory: COPD	Endothelin antagonist	Phase II	Phase II

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## Pfizer: Growth Drivers



- New product launches
  - Bextra, trade up of Celebrex
  - Relpax, acute migraine
  - Vfend, antifungal drug
- New filings
  - Pregabalin for neuropathic pain and epilepsy
  - Darifenacin for overactive bladder

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## Pfizer: Growth Drivers



- Greatest number of blockbuster drugs in industry

Blockbuster Peak Sales Estimates

>\$1,000 m	>\$2,000 m	>\$3,000 m	>\$4,000 m	>\$10,000 m
Diflucan	Zithromax	Exubera	Norvasc	Lpitor
Avasimibe	CIEP Inhibitor	Zolft	Celebrex	
Neurontin	Geodon		Valdecoxib	
Pregabalin	Viagra			
Pagoclone				
Zyrtec				
Spiriva				

Source: Salomon Smith Barney

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## Valuation: Comparables Analysis



- Multiples and ratios higher than industry average...

### Pharmaceutical Industry - EPS Estimates and Valuation

Company	Ticker Symbol	Price 1/23/2002	Annual Dividend	5 Yr % EPS		P/E 2001E	Div. Yield	EV to 2000A		
				Growth				Sales	EBITDA	Gross Profit
American Home Products Corp.	AHP	64.86	0.92	13	29.8	1.42	6.4	26	8.5	
AstraZeneca PLC	AZN	46.38	0.70	8	26.5	1.51	4.8	20.3	6.7	
Bristol-Myers Squibb Co.	BMJ	49.58	1.12	11	20.6	2.26	4.4	14.5	6	
GlaxoSmithKline PLC	GSK	50.70	1.43	10	24.7	2.81	5.5	19.9	7	
Johnson & Johnson	JNJ	59.03	0.72	12	31.2	1.22	6.1	27.4	8.8	
Eli Lilly & Co	LLY	76.14	1.24	10	27.6	1.63	7.7	23	9.4	
Merck & Co	MRK	58.75	1.40	8	2.38	2.38	3.4	14.5	7.6	
<b>Pfizer</b>	<b>PFE</b>	<b>41.77</b>	<b>0.52</b>	<b>17</b>	<b>31.9</b>	<b>1.24</b>	<b>8.8</b>	<b>29.7</b>	<b>10.6</b>	
Pharmacia Inc	PHA	41.07	0.54	12	23.5	1.31	2.8	13.9	4	
Schering Plough Corp.	SGP	34.11	0.64	10	21.6	1.88	5	15.7	6.1	
<b>Share Weighted Average</b>			<b>0.88</b>	<b>12.1</b>	<b>26.8</b>	<b>1.73</b>	<b>6.1</b>	<b>22.5</b>	<b>8.1</b>	

- BUT, Pfizer's growth far outpaces rest of the industry...
- PFE continues to trade below its historical 19% premium to industry

## Valuation: DCF



### Assumptions

Supernormal Growth Rate	30.0%
Terminal Growth Rate	5.5%
Risk Free Rate	4.2%
Expected Return on Market (Rm)	9.4%
Beta	0.73
Cost of Equity (Ke)	7.997%
Shares Out (millions)	6200.9

Year	1999	2000	2001	2002	2003	2004
Current Assets	16,311.00	17,187.00	22,343.10	29,046.03	37,759.84	1,512,159.76
Current Liabilities	11,896.00	11,981.00	15,575.30	20,247.89	26,322.26	1,054,121.49
Working Capital	4,415.00	5,206.00	6,767.80	8,798.14	11,437.58	458,038.27
Change in Working Capital		791.00	1,561.80	2,030.34	2,639.44	446,600.69
Net Income*		6,975.00	9,067.50	11,787.75	15,324.08	613,679.78
+ Depreciation and Amortization		968.00	1,258.40	1,635.92	2,126.70	85,167.32
- CapEx		(2,191.00)	(2,848.30)	(3,702.79)	(4,813.63)	(192,770.24)
- Change in Working Capital		(791.00)	(1,561.80)	(2,030.34)	(2,639.44)	(105,701.14)
= Free Cash Flow to Equity		4,961.00	5,915.80	7,690.54	9,997.70	400,375.72
PV of FCFE		4,961.00	5,477.74	6,593.76	7,937.14	294,319.93
Intrinsic Value		319,289.57				
Intrinsic Value Per Share		51.49				

\*Excluding Unusual Income/Expenses and Extraordinary Items in FY2000

## Valuation: DCF



### Sensitivity Analysis

		Discount Rate						
Base Case:	51.49	7.0%	7.5%	8.0%	8.5%	9.0%	9.5%	10.0%
	20.0%	73.01	54.72	43.75	36.44	31.22	27.31	24.28
	22.0%	75.53	56.59	45.23	37.66	32.26	28.21	25.07
	24.0%	78.10	58.49	46.74	38.90	33.31	29.13	25.87
Growth Rate	26.0%	80.71	60.43	48.27	40.17	34.39	30.06	26.69
	28.0%	83.38	62.41	49.84	41.46	35.48	31.01	27.53
	30.0%	86.09	64.42	51.43	42.77	36.60	31.97	28.38
	32.0%	88.85	66.47	53.05	44.11	37.73	32.95	29.24
	34.0%	91.67	68.56	54.70	45.47	38.89	33.95	30.12
	36.0%	94.53	70.68	56.38	46.86	40.06	34.97	31.01
	38.0%	97.44	72.84	58.09	48.27	41.26	36.00	31.92

## Recommendation



- BUY Pfizer
  - Strong product trends
  - Strong pipeline and high R&D budget
    - Low generic risk
    - Low patent expiration risk
    - Greatest number of blockbuster drugs
  - Co-marketing, licensing, and development

Questions?



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