

FINAL TRANSCRIPT

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PRESENTATION

Chuck Triano - *Pfizer Inc. - SVP of IR*

Good morning and thank you for joining us today to review Pfizer's second-quarter 2010 performance, 2010 financial guidance, and 2012 long range targets. I'm here with Jeff Kindler, Frank D'Amelio, Ian Read and other members of our leadership team.



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The financial charts that will be presented on this call can be viewed on our home page at www.Pfizer.com in the Investor Presentations tab by clicking on the link Quarterly Corporate Performance Second Quarter 2010. Also, I would add that this quarter, we have begun providing a more detailed geographic revenue breakdown in our financial tables.

Before we start, I would like to remind you that our discussions during this conference call will include forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements. Factors that could cause actual results to differ are discussed in Pfizer's 2009 Annual Report on Form 10-K and in our reports on Form 10-Q and Form 8-K.

Also, the discussions during this conference call will include certain financial measures that were not prepared in accordance with Generally Accepted Accounting Principles. A reconciliation of those non-GAAP financial measures to the most directly comparable GAAP financial measures can be found in Pfizer's current report on Form 8-K dated today, August 3, 2010. These reports are available at our website at Pfizer.com in the Investor's SEC filing section.

With that, I'll now turn the call over to Jeff Kindler. Jeff?

Jeff Kindler - Pfizer Inc. - CEO and Chairman of the Board

Thanks, Chuck, and good morning, everyone. I'll start with six key points. First, for the second consecutive full quarter since we closed the Wyeth deal, we are reporting strong top and bottom-line results across the business.

Second, we are improving our outlook for the rest of this year. We are now projecting adjusted diluted earnings per share in the upper end of our range.

Third, we are reaffirming every element of our targets for 2012 despite the headwinds of global economic challenges, US healthcare reform, European pricing challenges, and foreign exchange fluctuations.

Fourth, as I discussed last quarter, we recognize that returning cash to our shareholders is an important part of how we deploy your capital. Consistent with that, we are today reporting on our repurchase of common stock during the quarter.

Fifth, also consistent with that important principle, we are today reaffirming that barring significant unforeseen events, we expect our Board to approve an increase in the dividend at its December meeting.

And sixth, we are announcing today that, in light of our current assessment of the Company's solid financial position and its strong operational prospects, we're now targeting a dividend payout ratio comparable to the current industry average in about three years.

Looking ahead, we intend to continue delivering strong, steady, and consistent results, even in times of economic uncertainty, and even as different parts of our business face different challenges, and seize the different opportunities offered by healthcare needs around the world. We believe we are well-positioned to do this based on the key factors that have driven our performance over the two complete quarter since we acquired Wyeth.

First, a relentless insistence on operational execution produced by our customer-focused, accountable business units. Second, a disciplined deployment of capital to achieve the right returns for the distinct risks and opportunities offered by different areas of medical research, products, end markets, coupled with an ongoing drive across the Company for continuing improvements in productivity. And third, a business mix of products, businesses, geographies, and areas of medical research that balances both our risks and our opportunities.



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To reinforce this last point, please take a look at this chart. This chart shows the share of our revenue generated by each business unit during this quarter compared to the same quarter last year before the Wyeth acquisition. I'd like to call your attention to the share represented by our Primary Care Business unit, the blue slice on the pie chart.

This business sells patent-protected Primary Care products in developed countries, including the United States, Western Europe, Japan, Canada, and Australia. Sales of those type of products and those types of markets dominated Pfizer's earnings prospects in the recent past. This chart shows how that is changing significantly.

As you can see, Primary Care generated nearly half of our revenues in the second quarter of last year. By contrast, it represents about one-third of our revenues this quarter. Now, it's important to emphasize that the need to prevent and treat primary care diseases in the developed world is greater than ever, and the opportunities for Pfizer to create shareholder value in addressing those needs are still enormous. In fact, our confidence in Pfizer's ability to meet those needs is strengthened by the performance of the Primary Care business unit both this quarter and year-to-date.

In a very difficult operating environment, the legacy Pfizer Primary Care business increased operationally 5% this quarter compared to last year -- 4% in the United States; 2% in Western Europe; and 11% in the other developed countries, including Japan, Australia, and Canada. And nearly all of our key Primary Care products did well across the developed world.

You may recall that last quarter, I spoke about how we target support of our end line products in particular markets based on rigorous and proven ROI methodologies. This quarter, you can see some of the results of that in the performance of products like Lyrica, Celebrex, and Viagra.

Now all of that said, we all know that Primary Care in the developed markets faces particularly tough challenges in meeting the expectations of patients, payors and regulators, and facing competition from generics, and most importantly, in discovering and developing treatments for devastating diseases like diabetes and Alzheimer's. So our overall ability to deliver strong and consistent results to our shareholders over time is substantially enhanced by balancing the opportunities and the risks offered by the Primary Care business, with increasingly substantial contributions from a wide range of products and markets that offer entirely different risk and return profiles.

One example is our Specialty Care business in the developed world, the green slice on the pie chart. This business includes products whose technology, lifecycles, pricing structures and other characteristics, are quite different than those of Primary Care -- products like the world's leading vaccine Prevnar and its leading biologic Enbrel. As you can see from the chart, our Specialty Care business produced 13% of our revenues in the second quarter of last year. By comparison this quarter, Specialty generated 22% of our sales, and 5% of those sales came from vaccines.

Another set of businesses offering a different balance of opportunities and risks are those within our Diversified business units -- the orange slice. As you know, the Wyeth acquisition added the Consumer Nutrition businesses to our portfolio and substantially enhanced our Animal Health business. As a group, our Diversified businesses represented 8% of our revenues at this time last year but they produced 13% of our sales this quarter. And as you can see from the chart, 5% of those Diversified business revenues are coming from the Emerging Markets.

And, of course, the Emerging Markets unit itself, the red slice, which represents our Biopharmaceutical businesses in those geographies, as well as the Established Products unit, the off-patent products in the developed world -- the yellow slice -- also provide opportunities and risks quite different from the Primary Care business. The Established Products business remains on track to become a long-term source of growth; and, in this quarter, Emerging Markets delivered a strong performance, growing 11% on a legacy Pfizer operational basis.

Our experience with Prevnar in China is a good example of what's driving growth in the Emerging Markets and how the combination with Wyeth is producing shareholder value. In just the first six months of this year alone, sales of Prevnar in China have already surpassed the vaccine sales in China for all of last year. In fact, China powerfully illustrates, in an important growth



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market, the benefits of the Wyeth acquisition and our broad portfolio; our business unit structure and its focus on execution; and our disciplined approach to capital investment and productivity.

In China, our legacy Pfizer business produced operational growth of about 30%. Together with the addition of the Wyeth products, we now have a business in China that is twice as large as it was a year ago, a business that generated nearly \$0.5 billion in this quarter.

We'll continue to review the balance of risks and opportunities in our business so that we can deliver strong, consistent results for our shareholders over time. This balance is especially valuable in generating steady results, because our core mission of bringing forward innovative new medical treatments in ways that generate good returns for shareholders is a risky enterprise and it always will be.

Now on that point, I want to be very clear. I fully understand the significance to Pfizer's current valuation of our track record in R&D and of the historical return on capital invested in research. And one of my highest personal priorities is addressing R&D productivity and how to generate the best return from R&D for investors. That is also true for Ian, for Frank, and for Mikael Dolsten, who, as you know, was appointed head of Worldwide R&D during the quarter.

Meanwhile, we continue to see data emerge from our late-stage pipeline. And in that regard, we had both good news and bad news in the quarter. Certainly, the FDA's decisions regarding Tanezumab were both surprising and disappointing. By contrast, crizotinib has generated impressive and important clinical results for people suffering from lung cancer despite having smoked very little or not at all. In fact, the crizotinib results are so strong that we are planning to file for approval during the first half of next year, much sooner than originally expected.

In addition, in June, along with Bristol-Meyers, we announced the early termination of a Phase 3 trial for apixaban because it showed clear evidence of a reduction in stroke and embolism when compared to aspirin. We expect the initial scientific presentation of these results to occur at the European Society of Cardiology meeting at the end of the month.

We're working to publish the data and are assessing our regulatory options based on these positive developments. And during the balance of the year, we expect to receive Phase 3 clinical results for a variety of compounds, including Prevnar 13 in adults, tasocitinib, bosutinib, axitinib, and Sutent for non-small cell lung cancer. We're looking forward to seeing these results and I know you are as well.

With that, I'll turn the call over to Frank.

Frank D'Amelio - Pfizer Inc. - SVP and CFO

Thanks, Jeff. Good day, everyone. Before I begin, I want to punctuate Jeff's previous comments regarding Pfizer's dividend. First, we have continued confidence in the business, given the strong operational performance that we posted for the two full quarters that have included Wyeth operations. These results demonstrate the strength of our more balanced portfolio. In addition, we have continued confidence in the Wyeth integration and our initiatives remain on track.

Finally, we continue to expect to generate consistent results over the long-term, including cash flow, which we anticipate will benefit shareholders through appropriate levels of investment in the business and our pipeline to generate profitable revenue growth, as well as a direct return of cash to our shareholders through dividend payments and share repurchases.

We understand the importance of our dividends as well as our payout ratio relative to that of our peers. As such, we are now targeting a dividend payout ratio comparable to the current industry average of approximately 40% in about three years. While the dividend level remains the decision of the Board and will continue to be evaluated in the context of future business performance, barring any unforeseen circumstances, we currently anticipate Board approval of a dividend increase in December.



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Now let's move on to the second-quarter financial results. As always, the charts I'm reviewing today are included in our webcast.

The 58% year-over-year increase in second-quarter 2010 revenues was primarily attributable to the addition of Wyeth products, which favorably impacted revenues by 50%, as well as legacy Pfizer products, which increased revenues by 3%. Second-quarter revenues also included the positive effect of foreign exchange of \$584 million, or 5%.

The increases in adjusted income and adjusted diluted EPS were primarily due to revenues from legacy Wyeth products and foreign exchange, which were partially offset by expenses associated with the addition of Wyeth operations, a higher net interest expense, and an increase in the effective tax rate. Also, it's important to remember that both reported and adjusted diluted EPS were affected by the increased number of shares outstanding compared with the year-ago quarter, because of shares issued to partially fund the Wyeth acquisition.

Second-quarter adjusted total costs were negatively impacted primarily by the addition of Wyeth operations, and to a much lesser extent, by foreign exchange, which increased the adjusted total cost by \$48 million, or 1%. The increase in adjusted cost of sales as a percentage of revenue was primarily due to the change in mix of products and businesses resulting from the addition of Wyeth operations, which was partially offset by the positive impact of foreign exchange.

The increases in adjusted SI&A and R&D were also driven by the addition of Wyeth operations as well as the unfavorable impact of foreign exchange. In addition, our continued investment in our late-stage development portfolio contributed to the increase in R&D expenses.

Foreign exchange continued to have a positive impact on revenues and a negative impact on adjusted total cost this quarter. While foreign exchange had a negative impact on adjusted SI&A and R&D expenses, it had a positive effect of \$99 million, or 6%, on adjusted cost of sales.

The net effect of foreign exchange favorably impacted adjusted diluted EPS by \$0.04 in the second quarter. Beginning this quarter, we've included additional schedules to our financial tables, which break out the revenues for our top Biopharmaceutical products and our total Diversified business by geographic market, including the following international markets -- developed Europe, developed rest-of-world, and Emerging Markets. As we have previously stated, given the volatility of Emerging Markets, we do expect performance to fluctuate from quarter to quarter.

Revenues from our Biopharmaceutical business increased 49% in the second quarter, with operational growth of 44%, of which \$4.2 billion or 41% was attributable to legacy Wyeth products and \$313 million or 3% was attributable to legacy Pfizer products.

I want to point out that within the Biopharmaceutical units, legacy Pfizer's year-over-year operational performance continues to be impacted by the loss of exclusivity for certain products. Also, the switch to our fee-for-service distribution model had a favorable impact of \$308 million on legacy Pfizer's second quarter US biopharmaceutical sales, which, as expected, essentially offset the unfavorable impact from this switch in the first quarter.

Also, foreign exchange had a positive impact of \$485 million or 5% on biopharmaceutical revenues. It's important to remember that Pfizer's international calendar ends on November the 30th, and as a result, the second quarter of the year includes international results for March, April, and May. June was an unfavorable quarter for the euro and this will be incorporated into our third-quarter results.

Second-quarter Diversified revenues increased 169% year-over-year, mainly due to the addition of Wyeth products, and to a lesser extent, foreign exchange, which had a 12% positive impact on Diversified revenues. Operationally, Diversified revenues increased 157%.



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Second-quarter revenues generated in Emerging Markets, which include both legacy Pfizer, and legacy Wyeth Biopharmaceutical, and Diversified operations, increased 90% year-over-year, driven by a significant contribution of legacy Wyeth products and legacy Pfizer revenues in Emerging Markets, which increased 11% year-over-year.

It's important to note that Brazil, Russia, India, China, Mexico, and Turkey contributed a combined 46% to the overall growth in emerging markets. And legacy Pfizer Biopharmaceutical revenues in these countries grew 19% operationally in the quarter.

We are reaffirming all elements of our 2010 full-year guidance and expect adjusted diluted EPS to be in the upper end of our guidance range with expenses in the lower end of our ranges.

I'd like to point out that there are several factors that will unfavorably impact our revenues in the second half of the year, including Lipitor's loss of exclusivity in Canada in May of 2010; Effexor's global loss of exclusivity in July of 2010; two additional selling days in the US during the first half of the year versus the second half; and continued pricing pressure in Europe.

All other things being equal, the combined effect of these factors is expected to decrease second half 2010 revenues by approximately \$2 billion. It's also important to remember that the level of our expenses varies from quarter to quarter.

All of these factors have been considered in our 2010 guidance; therefore, we believe it's most prudent to maintain our current full-year 2010 guidance ranges. Based on our confidence in our future business performance, we are reaffirming all elements of our 2012 financial targets. These targets incorporate the anticipated impact of US healthcare legislation, as does our 2010 guidance. Our 2012 targets continue to assume a modest level of business development activities, up to 5% of our revenue target.

Moving on to key takeaways, despite the challenging economic environment, we achieved strong operational performance, while at the same time advancing the integration of Wyeth with minimal business disruption. We are reaffirming all elements of our 2010 guidance, and at this point, expect adjusted diluted EPS to be in the upper end of our guidance range with expenses in the lower end of our ranges. And we have reaffirmed our 2012 financial targets.

We remain on target to deliver our anticipated cost reductions, including achieving 50% in 2010. During the second quarter, we repurchased \$500 million worth of Pfizer shares, as we believe that, given the prevailing market conditions, share repurchases are an attractive investment opportunity and a prudent use of our capital.

Again, while the dividend level remains a decision of the Board and will continue to be evaluated in the context of future business performance, barring unforeseen events, we currently anticipate Board approval of a dividend increase in December, and we are now targeting a dividend payout ratio comparable to that of the current industry average of approximately [40%] in about three years.

Now I'll turn it back to Chuck.

Chuck Triano - Pfizer Inc. - SVP of IR

Thanks, Frank. And at this time, Operator, if we can please pull for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). David Risinger, Morgan Stanley.



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David Risinger - Morgan Stanley - Analyst

I have a couple questions. First of all, with respect to the wholesaler buying in the quarter, could you just go through that in a little bit more detail? And then if you could explain who you have inventory management agreements with and who you do not? For example, I would guess that maybe some chains that you don't have wholesaler buying or inventory managing agreements with might purchase ahead of price increases, but I'm not sure how to think through that.

And then second, if you could provide some more color on the run rate in the second half and how you plan to raise that up, that level of earnings per share upward, to raise the base of earnings dramatically ahead of the major patent expirations going into 2012. Thank you.

Chuck Triano - Pfizer Inc. - SVP of IR

Okay, thank you, David. Thanks, David. Good morning. I'm going to ask Frank to take both questions.

Frank D'Amelio - Pfizer Inc. - SVP and CFO

Alright, so, David, in terms of the wholesalers, I think the way I'll answer this question is, we announced on our last call that we were moving from a TIPS environment to a fee-for-service model in our US distributors. And what happened is, last quarter, that detrimentally impacted revenues; this quarter, it positively impacted revenues.

The positive impact this quarter was about \$308 million -- exactly \$308 million. Last quarter, it was approximately the same. So, on a year-to-date basis, we are pretty much net zero now, relative to the change in our US distributor model. So that's how I'd answer that.

In terms of the run rate question and what are we going to be doing to improve EPS, going forward, now, that's all the things from our perspective that we've been working on. So it's continuing on our cost reduction initiatives; it's continuing to drive continuous improvement in our focused areas, which include Emerging Markets, Established Products, our Invest to Win areas. It's those kinds of things along with executing and driving our business every day.

Ian Read - Pfizer Inc. - SVP and Group President, Pfizer Biopharmaceutical Businesses

Yes, we have the fee-for-service agreement with the three major distributors, at least the three major distributors in the US, which covers the majority of our sales into the US distribution channels.

Chuck Triano - Pfizer Inc. - SVP of IR

Thanks, Ian.

Operator

Chris Schott, JPMorgan.



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Chris Schott - JPMorgan - Analyst

First of all, I appreciate the color on the dividend targets over time and I had a couple questions on that. How should we think about the trajectory of those potential increases? Is that something that will be relatively consistent over the next three years? Or should we think about those potential increases as more backend-loaded as you get past the 2012 patent cycle?

Second question was with the capital structure currently. What type of constraints should we think about when considering your share rebuttal, your dividend, your business development ambitions? Basically, what type of debt levels and leverage are you now comfortable operating with, given the more Diversified business that you have?

And the final question was thinking about the longer-term model. You've moved your Primary Care business obviously down to 34% this quarter, given a number of major patent expirations and what appears to be some of your larger pipeline opportunities coming from non-Primary Care areas. Where should we think about PCP [going] as a percent of revenue over time? Could we see that number go below 25% when you consider your longer-term targets? Thanks.

Chuck Triano - Pfizer Inc. - SVP of IR

Go ahead, Frank.

Frank D'Amelio - Pfizer Inc. - SVP and CFO

So, let's see -- on each of these in terms of the dividend, I talked about we're targeting now a dividend payout ratio comparable to the current industry average of approximately 40%. Chris, we're currently at about 33%, right? Our dividend payout right now is \$0.72. If you take whatever number from our guidance, you get about 33%. So clearly, this is a commitment to a great dividend in about three years.

In terms of how we get from here to there, that will take place on an annual basis. And we said we'd have -- we're expecting an increase pending Board approval this coming December. So, we gave you the beginning, where we are, where we plan to get to, and then, obviously, we'll tell you how we get there each December -- the way I'd answer that question.

In terms of capital constraints, from my perspective, with our current balance sheet, we continue to have financial flexibility. If you look this quarter and we made a commitment to increase our dividend payout, we bought back \$500 million worth of our shares. We're able to fund the business operationally and do the things we need to do to invest for future profitable growth.

I think we're seeing some of that in our emerging markets, for example; we had a strong quarter in China. We've been deploying capital in China and we're getting a nice return on that capital. So, from my perspective, I think we have lots of flexibility to do the things that we need to do to invest in the business, to return capital to our shareholders. I don't view it as an or; I view it more as an and.

Jeff Kindler - Pfizer Inc. - CEO and Chairman of the Board

Yes, and I'll just -- maybe I'll just comment on the last part of your question, Chris. The objective is to have a balanced portfolio of risk and opportunities. And as I've said before, we'll continue to review the right balance over time and not based on some predetermined objective of percentages over some long-term forecasts.

Operator

Marc Goodman, UBS.



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Marc Goodman - UBS - Analyst

Yes, I had two questions. First, can you talk about the push/pulls on the gross margin and your expectations of how this plays out the rest of the year and into next year?

And then, secondly, just specifically on Prevnar 13 and 7, can you give us a flavor for what is kind of a normal run rate revenues of those products, how you see that playing out? Were there any major tenders this quarter versus last quarter and your expectations for how that plays out the rest of the year? Thanks.

Chuck Triano - Pfizer Inc. - SVP of IR

Okay, start with Frank and then Ian.

Frank D'Amelio - Pfizer Inc. - SVP and CFO

Yes. So on the gross margin, I'll answer this maybe through cost of sales. If you look at our cost of sales through the first -- for the quarter and for first half of the year, they're running at about 17% for the quarter; although if you take out foreign exchange, it's about 18.2%.

And then for the first half of the year, it was 17.3% if we remove foreign exchange to about 17.5%. And then we maintained our guidance, which is roughly 19% to 20%. So let me talk about what's happening there. And really, Mark, it's the items I talked about relative to revenue plus a few other things. So, clearly, product mix can change from quarter to quarter.

The second thing is, we do expect some continued volatility with foreign exchange and the impact that that could have, in particular, on cost of sales. And then some of the LOEs that I talked about with Lipitor and with Effexor will put some pressure on (technical difficulty) as well in gross margins -- as will continued European pricing pressure. So we've factored all that into our guidance for the year, which is 19% to 20%, which [we maintain]. And we also factored that into our 2012 targets, [while] we kept our operating margins in the high [30's] to low [40's].

Chuck Triano - Pfizer Inc. - SVP of IR

Thanks, Frank. Ian, about Prevnar?

Ian Read - Pfizer Inc. - SVP and Group President, Pfizer Biopharmaceutical Businesses

I think the Prevnar quarter was -- I would classify it as a normal quarter, the usual fluctuations we're seeing -- good growth in the United States coming from the catch-up volume that we're operating against, against our price increases and a small impact of inventory build of about \$34 million. So I would just classify it as a normal quarter and the expected rhythm of the business.

Chuck Triano - Pfizer Inc. - SVP of IR

Thank you.

Operator

John Boris, Citi.



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John Boris - Citigroup - Analyst

Thanks for taking the questions. First question for Frank. Just -- you indicated certainly there were some European pricing pressures. Can you help us understand what the impact on pricing will be in the back half, but more importantly, on 2011, 2012 coming out of most notably, France, Germany, Spain, and how that carries through to '11/'12, and any implication that has on your guidance?

And then on US price increases, may not have been -- were there any in the quarter? But more importantly, were there any in the third quarter that could have led to some anticipatory buy-ins? Thanks.

Chuck Triano - Pfizer Inc. - SVP of IR

Okay, Frank, you want to start?

Frank D'Amelio - Pfizer Inc. - SVP and CFO

Yes. So, on the European pricing pressure, I think the way I'll answer this, John, is, pricing pressure in Europe is not a new entry for the industry nor for the Company. And we're a global company with a global portfolio, and we run the business, therefore, on a global basis.

But that said, the way we think about Europe is, traditionally, pricing pressure on an annual basis has been in the low single digits. This year, we're projecting it to be in the mid-single digits. We factor that into our 2010 guidance. And we're assuming that mid-single-digit pressure going forward through our 2012 targets. So that's how I'd answer the question relative to what we see from an impact perspective, and then the relationship of that to our guidance in 2010 and our targets for 2012.

Ian Read - Pfizer Inc. - SVP and Group President, Pfizer Biopharmaceutical Businesses

So, John, we'd moved to a fee-for-service basis, so we don't see any movements in inventories because of anticipatory buying because of price increases. So I don't think that's been an impact. And the inventory levels at the end of the second quarter were equal to or slightly down compared to the inventory levels of the previous 2009 second-quarter.

Frank D'Amelio - Pfizer Inc. - SVP and CFO

Yes, the inventory levels this quarter with the distributors was 2.6 weeks on hand. The year-ago quarter, it was 2.8 weeks on hand -- just to punctuate Ian's point.

Chuck Triano - Pfizer Inc. - SVP of IR

Thank you.

Operator

Jami Ruben, Goldman Sachs.



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Jami Ruben - *Goldman Sachs - Analyst*

Thank you for providing increased transparency on your sales in emerging markets. That's very helpful.

A question for you, Jeff and Frank. You purchased \$500 million worth of stock during the quarter, which is obviously a great start, something that we've been wanting to see; but frankly, a pittance relative to what your real buying capacity is and given that you're going to generate \$20 billion -- close to \$20 billion in operating cash flow. So can you update us on your thoughts on this? And how more aggressive you are likely to get with share repurchases?

My second question relates to business development activities. There hasn't been much this year despite, I think, your guidance, Frank, of 5% of the revenue target in 2012 coming from M&A. Can you remind us again your priorities? Obviously, there is large-scale biotech M&A activity heating up. And could you also just tell us or characterize your interest in acquiring a large-scale, say, \$18 billion to \$20 billion biotech asset? Thanks.

Frank D'Amelio - *Pfizer Inc. - SVP and CFO*

Sure. So on the share repurchases, if you recall, last quarter, we said that given prevailing market conditions, we now viewed share buybacks as an attractive investment opportunity, and that we would be opportunistic in terms of going into the market and purchasing shares as market conditions warranted. And that's exactly what we did this quarter. We did the \$500 million worth of share buybacks, almost 31 million shares. And on a going forward basis, we will continue to be opportunistic in terms of what we do or don't do in the market as market conditions warrant.

So I'd say that's clearly one possible use of our capital. As I mentioned, we did use some capital this past quarter to purchase \$0.5 billion worth of our shares.

In terms of business development, we continue to view bolt-on transactions as prudent from a business development perspective and the focused areas have not changed. They continue to be Emerging Markets, Established Products, and our Invest to Win areas -- pain, inflammation, oncology, Alzheimer's disease, neuroscience -- those are the areas that we said before, those are the areas that we continue to focus on.

No change there, but we view Biz Dev as an enabler of our strategies, not as a strategy in and of itself. And we are -- continue to look at potential bolt-on transactions.

Chuck Triano - *Pfizer Inc. - SVP of IR*

Thank you.

Operator

Tim Anderson, Sanford Bernstein.

Tim Anderson - *Sanford C. Bernstein & Company, Inc. - Analyst*

On foreign exchange, you reported a benefit of 5% to revenues. When I look at what other big US drug companies reported in the quarter, very consistently, it was maybe 1% or 2%. And I know that every company has a different revenue mix, but I'm wondering, are there some reasons that can explain why Pfizer had such a unique big benefit in the quarter? Also, can you comment on what FX impact on full-year revenues would be if you kept rates current?



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And then second question is on your legacy Pfizer Emerging Markets growth rate. You report that as 11%. I'm assuming that includes FX. What would have been the growth in that division on a legacy basis, excluding FX?

Frank D'Amelio - Pfizer Inc. - SVP and CFO

Yes. So, on foreign exchange, the reason that we've been different than our competitors is really based on our fiscal calendar for international. So remember, our fiscal year ends in November for international business. So for the second quarter, it includes the months of March, April, and May; where, for the rest of the industry on the whole, it's April, May, and June.

And so in the quarter, we had March and not June. And what happens, Tim, is if you look at the euro to the dollar, for example, in March, it was 1.36, on average. If you look at the euro to the dollar on average for June, it was 1.23. So if we had June in the results, our 0.04 benefit would have been more like 0.02 on an EPS basis. The 5% in revenue would have been more like -- call it 2%. So it's really the calendar, the months that are included in the calendar that caused the difference.

On foreign exchange impact for the year, I think what I would say is, this quarter, it was \$584 million on revenue. On a year-to-date basis, it's \$1.316 billion. I'm trying to project that on a going-forward basis, just with all the moving parts; and with the different currencies and the basket of currencies that we have, is extremely difficult.

And the third question -- on Emerging Markets, that 11% was operational. It excluded foreign exchange. So think about that 11% as it's our legacy Pfizer Biopharmaceutical business unit of Emerging Markets that, all in, grew 11% operationally, which excluded the impact of foreign exchange.

Chuck Triano - Pfizer Inc. - SVP of IR

Thank you.

Operator

Eric Lo, BoA Merrill Lynch.

Eric Lo - BofA Merrill Lynch - Analyst

Thanks for sharing the products sales details for the emerging markets. I was wondering if you could comment on what the profitability of those sales are in this region?

And second question, I wanted to maybe follow-up a little bit in terms of the switch for -- switch to fee-for-service distribution model. Are you foreseeing any impact to your sales in the second half coming from that?

Chuck Triano - Pfizer Inc. - SVP of IR

Go ahead, Eric.

Frank D'Amelio - Pfizer Inc. - SVP and CFO

What was your third part?



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Eric Lo - BofA Merrill Lynch - Analyst

Oh, that was it, I'm sorry.

Chuck Triano - Pfizer Inc. - SVP of IR

Okay. Alright, Frank for the first question, Ian for the second.

Frank D'Amelio - Pfizer Inc. - SVP and CFO

So on the profitability of Emerging Markets, there's no doubt that gross margins in Emerging Markets are lower than the gross margins in our traditional Biopharmaceutical business; but it also -- but the Emerging Market business also has lower expenses.

So when we look at the operating margins that we'll generate from the Emerging Markets and factor that all into the combined Company, that's what allows us to reaffirm our 2012 targets for operating margins, which are in the high [30's], [a low] 40%, which by the way, is where we are now. Just look at our results this quarter.

Operating margin for the quarter is about 42%. If we remove foreign exchange, it's about 40.5%, consistent with our target for 2012, which clearly assumes growth in the Emerging Markets and factors in those income statement dynamics that I just alluded to.

Chuck Triano - Pfizer Inc. - SVP of IR

Thank you. Ian, on fee-for-service?

Ian Read - Pfizer Inc. - SVP and Group President, Pfizer Biopharmaceutical Businesses

Because we went to a fee-for-service as of the beginning of this year, the underlying sales and demand are not influenced by buying patterns there because there's a fee-for-service. So I don't expect to see any impact in the second half of the year from fee-for-service. And the fluctuations that Frank is talking about are fluctuations that occurred in our '09 results between the first and second quarter, which then, on a growth basis, creates a comparison into this year.

Chuck Triano - Pfizer Inc. - SVP of IR

Thanks, Ian.

Operator

David Maris, CLSA.

David Maris - CLSA Asia Pacific Markets - Analyst

Just wanted to understand a little bit better on the sales force headcount globally, how that developed during the quarter and maybe during the first half of the year. What is in China and the Emerging Markets, and how has that changed?

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Frank D'Amelio - Pfizer Inc. - SVP and CFO

So, why don't I run the total headcount numbers and then, Ian, you can comment on the sales force.

So, if you look, when we closed Wyeth, our headcount was 120,700. That was the middle of October. Please remember when we announced Wyeth in January, our headcount was about 130,000. So the headcount had reduced from announcement to close by 9,300 people.

Since we closed, the headcount numbers now by quarter have been from [120,700] to [116,500] to [113,800] to [112,100] people. So since we closed on the deal, we reduced our total workforce by 8,600 people. That's in addition to the workforce reductions from when we announced the deal to when we closed the deal, which [were another] 9,300 or so. So, a big number.

I also want to mention that despite that, we're actually growing headcount in certain parts of portfolio, for example, in Emerging Markets. So that's a net number that I just quoted. Ian?

Ian Read - Pfizer Inc. - SVP and Group President, Pfizer Biopharmaceutical Businesses

So, in the US, most of the field force changes were made very quickly after the Wyeth acquisition. So they are reasonably stable; some minor technical changes. In Emerging Markets, we continue where appropriate to add field force. So if you look at China, we've expanded from 2,600 reps to 3,000 between the first and the second quarter. And that is the major country where we're adding field force.

Chuck Triano - Pfizer Inc. - SVP of IR

Thank you.

Operator

Seamus Fernandez, Leerink Swann.

Seamus Fernandez - Leerink Swann & Company - Analyst

So, just two questions. Maybe Frank, can you characterize for us the relative size of a bolt-on acquisition for Pfizer at this point, how we should think about it? And how disruptive something like that might be viewed, given where you are in terms of the innings on the different -- or how you're thinking about disruption in terms of the inning where you are on breaking out the different business units, and separating out and having the different business units operate?

And then the second question was, I think, fairly simple -- how much did that two days of incremental Pfizer sales contribute in the first half of the year? Just wanted to know that number, quickly. Thanks.

Frank D'Amelio - Pfizer Inc. - SVP and CFO

So, Seamus, on the days question, it's -- it was two additional selling days in the first half in the US. And assume it's about \$100 million a day. [Someone cancelled], a touch higher than that, but \$100 million a day. So [giving us] \$200 million on the impact of the day's first half of the year versus second half of the year.

In terms of business development in this size, I used the term before, bolt-on transactions. I think of bolt-on transactions as a few billion up to maybe several billion, but it's in that kind of a range relative to a bolt-on transaction.



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Operator

Tony Butler, Barclays Capital.

Tony Butler - *Barclays Capital - Analyst*

Thanks for taking the question. Jeff, you've made some commentary around balancing risk and reward. You've also talked about productivity in R&D and ROI. And there's also been guidance given about lowering R&D costs by roughly \$1 billion by 2012. But I'm curious, given the fact it seems that the landscape has changed in R&D risk, it's gone up tremendously, would it not be more prudent to consider even lowering that number \$8 billion to \$8.5 billion by '12 even further, maybe another 10%, maybe 20%? Is that some thought around discussion internally? Thanks.

Jeff Kindler - *Pfizer Inc. - CEO and Chairman of the Board*

Tony, thanks for the question. I said earlier, I recognize that the return on investment R&D spend is an important thing to focus on. And we are looking at that in general. And the way we've been focused on this, as you know, is to, first of all, think very hard about what disease areas we should be in. And in those different disease areas, there are differences in terms of the return; in terms of where we want to take risks. Some risks are higher than others.

And we have really improved, I think, the model in terms of moving Phase 3 decisions to places where the people making those decisions are accountable for the returns in a different way. And I think that we've made some important decisions in that regard and we'll continue to look at the overall spending, both in general and in how the spending that we have is determined, on both a product basis and across the portfolio. It's an important issue and we continue to review it.

Frank D'Amelio - *Pfizer Inc. - SVP and CFO*

And Tony, it's Frank. If I could just run the numbers quick. You mentioned the \$1 billion. In 2008, the combined spend of Wyeth and Pfizer R&D was about \$11 billion. Pfizer was about \$7.5 billion; Wyeth was about \$3.5 billion. And we said we're targeting \$8 billion to \$8.5 billion, which are the numbers you mentioned, by 2012. That's a \$2.5 billion to \$3 billion reduction off of the pro forma 2008 numbers.

Operator

Bert Hazlett, BMO Capital Markets.

Bert Hazlett - *BMO Capital Markets - Analyst*

I have two. First, is regarding the higher margin area of the Emerging or established markets, that of injectable products. How attractive is this area to you? And can you do licensing to play here or do you need to do acquisitions?

And then my second question is regarding crizotinib, the ALK inhibitor. In the genetic testing that's necessary for ALK elevation, how widely available is that currently? And do you have any plans to develop that test? And can you just discuss maybe other tumors that may express -- or over-express ALK that you might be considering with that drug? Thanks.

Jeff Kindler - *Pfizer Inc. - CEO and Chairman of the Board*

Ian?



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Ian Read - Pfizer Inc. - SVP and Group President, Pfizer Biopharmaceutical Businesses

Sorry, your first question was? Injectables. Yes, injectables are an important part of our strategy. We're actually, as a first wave, we're working in the US injectables but certainly see it as important in Emerging Markets. We see that being done primarily through licensing at the moment as regard our strategy.

And on the second one, on the crizotinib, on the genetic testing, we're working with various suppliers, Abbott being one of them, to ensure that that test is widely available at launch. And we're also looking at the databases to see the expression of the [ALT] gene and other tumor types. We know it's present; there has been some studies talking about prevalence in various tumors. But right now, we're really focused on the opportunity in lung cancer and getting that product to market.

Jeff Kindler - Pfizer Inc. - CEO and Chairman of the Board

Thanks, Ian. We have time for one more question.

Operator

Your final question comes from Steve Scala from Cowen.

Steve Scala - Cowen and Company - Analyst

I have two questions. At this early juncture, what is your expectation for the launch of Lipitor generics in November of 2011 relative to timing? Do generics launch relative to number of competitors? Is it one or two or six? And supply -- can they supply 20% of the molecule or 100%?

And then secondly, what changes, if any, in R&D should we expect with Dr. Dolsten onboard? Thank you.

Ian Read - Pfizer Inc. - SVP and Group President, Pfizer Biopharmaceutical Businesses

So, regard Lipitor, we expect the generic to launch in November and we expect them to have [fulsome] supply.

Jeff Kindler - Pfizer Inc. - CEO and Chairman of the Board

And, Steve, with regard to Dr. Dolsten, we're -- he's a fabulous, world-class scientist and physician who has really exciting ideas and opportunities. He's been responsible for our worldwide R&D organization for a couple of months, and has already brought onboard some world-class scientists and leading physicians. Watch this space -- there's some very exciting things to come. And I hope you'll have the opportunity to meet with him then.

And with that, I will thank all of you for joining us today. We appreciate your interest and time, and we hope you all have a good day.



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