

# FINAL TRANSCRIPT

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## **PFE - Q3 2010 Pfizer Earnings Conference Call**

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Nov. 02. 2010 / 2:00PM, PFE - Q3 2010 Pfizer Earnings Conference Call

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*Pfizer Inc. - CEO, Chairman of the Board*

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## PRESENTATION

**Operator**



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Good day, everyone, and welcome to Pfizer's third-quarter 2010 earnings conference call. Today's call is being recorded. At this time, I would like to turn the call over to Mr. Chuck Triano, Senior Vice President of Investor Relations. Please go ahead, sir.

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

Thank you, operator, and good morning, everyone. Thanks for joining us today to review Pfizer's third-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.

The financial charts that will be presented on this call can be viewed on our home page at Pfizer.com by clicking on the link for Pfizer quarterly corporate performance third-quarter 2010, located in the investor presentations tab at the lower right-hand corner of this page.

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, and the 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 Forms 10-Q and 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. 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, November 2, 2010. These reports are also available at our website at Pfizer.com in the investors' SEC filings section.

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

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

Thanks, Chuck, and hello, everyone.

I'd like to start by making five key points. First, for the third consecutive full quarter since we closed the Wyeth deal, we are reporting solid operating performance. Second, given this performance and our continued confidence in the business, we are increasing both the top end and the bottom end of our 2010 adjusted diluted EPS guidance range.

Third, we are once again reaffirming the financial targets that we've set out for 2012. It's important to emphasize that we are raising this year's guidance and reaffirming the 2012 targets despite uncertainty in the global economy, strong competitive challenges, and significant changes in the regulatory and public policy environment across the markets in which we operate.

Fourth, consistent with our commitment to enhancing total shareholder value, we are continuing to return cash to our owners. During the second and third quarters of this year, we repurchased a total of \$1 billion in stock at an average price of \$16.40 per share.

And finally, fifth, also consistent with that commitment, we are on track to pay nearly \$6 billion in dividends this year. As we have previously stated, barring any unforeseen circumstances, we expect the Board of Directors to raise the dividend in December and we continue to target a dividend payout ratio comparable to the current industry average in about three years.

Now, on the subject of capital allocation, I want to highlight a particularly important point illustrated this quarter. As we said we would do, we have continued to deploy your capital in disciplined business development activities that allow us to shape our balanced business portfolio in order to maximize shareholder value, and I'd like to spend a few minutes this morning



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discussing the deals we announced since the beginning of September in the context of the balanced business portfolio that I described on last quarter's earnings call.

First, let me review briefly the context. We closed the Wyeth acquisition just over a year ago, and since then, we have moved quickly to integrate the companies, to achieve our planned cost synergies, and to deliver solid financial performance from the combined company. The people and assets that Wyeth brought to us, together with the changes we had made in our leadership, culture, and operating model over the last three years, have positioned us to deliver three important things -- one, producing steady, reliable, adjusted earnings growth over time; two, returning cash to shareholders through dividends and buybacks; and three, making disciplined internal and external investments in innovative new treatments and cures that produce good returns on your capital.

The foundation for these results is a dynamic portfolio of businesses, products, geographies, and areas of research that balances both our risks and our opportunities. That portfolio enables us to advance our strategies of growing our patent-protected portfolio in priority therapeutic areas, in vaccines and biologics, in established products, in emerging markets, and in appropriate diversified businesses.

Now, each of the five actions that we recently announced significantly advances these strategies and helps us further balance our portfolio of businesses and products, and let me show you what I mean. In primary care, which currently accounts for about one-third of our revenues, we have identified pain as one of our invest-to-win therapeutic areas because of our strong capabilities in this area and because of the growing market for this condition of unmet medical need. Our pending acquisition of King Pharmaceuticals will provide an excellent complement to our current portfolio of pain treatments, which ranges from Advil and ThermaCare to Celebrex and Lyrica, as well as several promising pipeline candidates.

King is a leader in new formulations of pain treatments designed to discourage common methods of misuse and abuse. King's assets will provide Pfizer with multiple new drug delivery platforms, as well as potential long-term upside in our primary care, established products, as well as in our animal health business.

Now in specialty care, which generates almost a quarter of our revenues, we have strengthened our presence in the growing orphan diseases market by acquiring FoldRx, a privately-held drug discovery and clinical development company.

FoldRx brings us an oral, once-daily, small-molecule candidate with the potential to treat a fatal genetic neurodegenerative disease for which a liver transplant currently is the only available treatment. It brings us greater understanding of protein misfolding, which is increasingly recognized as an underlying cause in many chronic degenerative diseases.

Meanwhile, in established products, which accounts for about an eighth of our revenues, our alliance with Biocon, India's leading biotech company, will advance our strategies in biosimilars and will position us competitively in the diabetes market over time. This is important in the developing world where patients' uninterrupted access to insulin is often very difficult, as well as in developed countries like the United States, where the CDC just announced that up to one-third of the population could be living with diabetes within a generation.

Turning to our emerging markets business, which produces about an eighth of our revenues, we agreed last month to acquire 40% of Laboratório Teuto Brasileiro, a privately-held company in Brazil with approximately 250 branded and unbranded generic pharmaceuticals in more than 400 presentations. This partnership will give us access to a large network of independent distributors that reach more than 36,000 pharmacies in rural and suburban Brazil, and customers that Pfizer is not currently reaching.

This agreement also includes the opportunity to commercialize Teuto's products outside Brazil, which we believe offers substantial promise for both our emerging markets and our established products business.



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Finally, within our diversified businesses, which accounts for about an eighth of our revenues, we announced that we are reviewing strategic alternatives for Capsugel. I've said before that review of the role, fit, and value creation of each of our businesses is part of our ongoing review of our dynamic business portfolio. We will continue to optimize our portfolio of businesses and products in order to maximize value for our shareholders. Capsugel represents a unique business with strong potential for growth outside of Pfizer, and now is the right time to undertake this review.

It's worth noting that each of these business development actions came about as a result of the speed, focus, and agility that characterize our business unit operating model. Around here we use the phrase, the power of scale, the spirit of small. These announcements demonstrated that concept in action.

Because our respective business unit leaders and their teams understand their distinct customers, marketplaces, and competitors, they saw the chance to create value and they moved quickly to bring these opportunities forward. For our part, corporate-level leadership ensured that the right hurdle rates were applied, that there was appropriate discipline around price and terms, and that Pfizer's scale and resources were brought to bear when appropriate. Once the deals are closed, the leaders of the relevant business units will be accountable for the success of each of these deals.

Now in addition to our business development activities, we continue, of course, to advance our late-stage development pipeline and we have several important milestones ahead. Next week at the American College of Rheumatology, we will provide an update on the development of tasocitinib, our oral JAK inhibitor, and we will present Phase III data from our initial study in people with rheumatoid arthritis.

In addition, we remain on track to submit regulatory applications for an adult indication for Prevnar 13 in the U.S. and Europe by the end of this year. Pfizer has completed its Phase III trials in support of these regulatory submissions.

With respect to apixaban, our Factor Xa inhibitor, based on the strength of the preliminary Phase III AVERROES study data, our partner, Bristol-Myers Squibb, announced last week that the companies have initiated a rolling submission with the FDA under the trade name [ellaquese] for people with atrial fibrillation that is unsuitable for treatment with warfarin.

And finally, in the first half of next year, we anticipate filing with the FDA for crizotinib, our novel personalized agent for people with lung cancer.

To wrap up, I believe our results this quarter, like each quarter since we closed the Wyeth deal, demonstrate that the changes we have been making at Pfizer have enabled us to deliver steady, consistent adjusted earnings results, to return cash to shareholders, and to make disciplined investments in medicines that will produce good returns for our shareholders. And we are doing so consistently, despite global economic headwinds, currency fluctuations, competitive challenges, and regulatory and public policy uncertainties.

That is because today our Company has a dynamic portfolio of businesses that represents a good balance of risks and opportunities across products, geographies, technologies, and customers. We continuously review our portfolio. We are relentlessly focused on cost productivity and capital discipline, and our culture emphasizes focus and accountability. We have the benefits that come with the scale and resources of a large company, but our business unit operating model allows us to move with the agility necessary to seize valuable opportunities like the ones I described this morning.

With that, I'll ask Frank to review our third-quarter results.

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

Thanks, Jeff. Good day, everyone. As always, the charts I am reviewing today are included in our webcast.



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Now, let's move on to the third-quarter financial results. The \$4.6 billion, or 39%, year-over-year increase in third-quarter 2010 revenues was primarily attributable to the addition of legacy Wyeth products, which favorably impacted revenues by \$5.2 billion, or 44%, partially offset by a \$458 million, or 4%, decrease in revenues from legacy Pfizer products and a \$160 million, or 1%, negative impact foreign exchange.

The year-over-year decrease in third-quarter 2010 reported net income and reported diluted EPS was due to a non-cash impairment charge resulting from updated forecasts of certain Wyeth assets compared with the fair values estimated at the closing of the acquisition last year. This pretax charge of approximately \$1.5 billion consists of IP R&D charges of about \$715 million and brand assets and developed technology charges of approximately \$750 million.

These updated cash flow projections are based on the most recently projected development of regulatory timeframes and the current market environments for brand assets and their planned investment support. I want to point out that we do not expect these updated projections to have an impact on our 2012 revenue or adjusted diluted EPS targets, which we are reaffirming today.

It's also important to remember that while there have been acquired assets whose projected values have decreased, there are acquired assets whose projected values have increased as well. However, these increases are not reflected in our third-quarter financial statements because current accounting rules require that we record asset value decreases or impairments, but do not allow us to record asset value increases subsequent to day zero.

In addition, reported net income and reported diluted EPS in the quarter were negatively impacted by a charge for asbestos litigation of \$701 million.

The increase in adjusted income and adjusted diluted EPS were primarily due to revenues from legacy Wyeth products, which were partially offset by expenses associated with the addition of Wyeth operations, lower aggregate revenues from legacy Pfizer products, and higher net interest expense. 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.

Third-quarter adjusted total costs were negatively impacted, primarily by the addition of Wyeth operations, which was partially offset by a 4% positive impact from foreign exchange. The increase in adjusted cost of sales as a percentage of revenue from 15.4% to 18.3% was primarily due to the change in the mix of products and businesses resulting from the addition of Wyeth operations, which was partially offset by the positive impact of foreign exchange.

The 43% increase in adjusted S&A expenses and 33% increase in R&D expenses were also driven by the addition of Wyeth operations. Also, driven by our continued investment in our late-stage development portfolio, which contributed to this increase.

In the third quarter 2010, foreign exchange had a negative impact of \$160 million on revenues and a positive impact of \$298 million on adjusted total cost. The net effect of foreign exchange resulted in a \$0.01 favorable impact to adjusted diluted EPS.

Revenues from our biopharmaceutical business increased \$3.3 billion, or 31%, in the third quarter with operational growth of 33%, of which \$3.9 billion, or 37%, was attributable to legacy Wyeth products, which was partially offset by a \$468 million, or 4%, decrease in revenues from legacy Pfizer products.

It's important to remember that Pfizer's annual international calendar ends on November 30, and as a result, third quarter includes international results for June, July, and August. As we previously stated on our second-quarter earnings call, June was an unfavorable quarter for the euro, and therefore, this negative impact was reflected in our third-quarter results.



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Also, 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 of certain products, including Lipitor, which lost exclusivity in Canada in May of 2010 and Spain in July of 2010.

Third-quarter diversified revenues increased approximately \$1.3 billion, or 151%, year over year, due to the addition of Wyeth products. The impact of foreign exchange on diversified revenues in the third quarter was immaterial.

Third-quarter revenues generated in emerging markets, which include both legacy Pfizer and legacy Wyeth biopharmaceutical and diversified operations, increased 66% versus the third quarter of 2009, due to the significant contribution of legacy Wyeth products. It's important to note that over the same period, 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 BRIC-MT markets grew 5% operationally in the third quarter and 10% operationally year to date.

Based on our year-to-date performance and outlook for the remainder of 2010, we are updating the ranges of our 2010 guidance. We are tightening the revenue range to \$67 billion to \$68 billion, decreasing and tightening the range of adjusted cost of sales as a percentage of revenue to 18.5% to 19%, tightening our adjusted S&A expense range to \$19.2 billion to \$19.7 billion, tightening the adjusted R&D expense range to \$9.1 billion to \$9.5 billion, expecting adjusted other deductions -- adjusted other deductions to be approximately \$1 billion, maintaining our guidance for the effective tax rate on adjusted income at approximately 30%, decreasing the reported diluted EPS range to \$0.84 to \$0.89, and finally, we are increasing and tightening our adjusted diluted EPS range to \$2.17 to \$2.22.

As we previously stated and forecasted, the adjusted diluted EPS range absorbs EFFEXOR's loss of exclusivity in the U.S. in July, two fewer selling days in the fourth quarter compared with the third quarter, and Lipitor's loss of exclusivity in Canada in May of 2010 and Spain in July 2010. In addition, the range now reflects the impact of our recently announced collaboration with Biocon and the upfront payment that was included.

Consequently, we expect these factors in the aggregate to negatively impact our fourth quarter adjusted diluted EPS by approximately \$0.06 to \$0.07, which has been factored into our 2010 guidance.

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 U.S. healthcare legislation, as does our 2010 guidance. And our 2012 targets continue to assume a modest level of business development activities, up to 5% of our revenue target.

So moving on to key takeaways, despite the challenging economic environment, we achieved solid overall operational performance while at the same time advancing the integration of Wyeth with minimal business disruption. We have tightened the ranges of all components of our 2010 financial guidance, including increasing and narrowing the adjusted diluted EPS range, \$2.17 to \$2.22, and we have reaffirmed all of our 2012 financial targets. We remain on target to deliver our anticipated cost reductions, including achieving approximately 50% in 2010.

During the third quarter, we repurchased approximately \$500 million of Pfizer shares and we will continue to be opportunistic with share repurchases as market conditions warrant.

Finally, we are advancing our strategic priorities through our recently announced review of strategic alternatives for our Capsugel business, collaboration with Biocon and pending collaboration with Teuto, and acquisition of FoldRx and pending acquisition of King Pharmaceuticals. Now, I'll turn it back over to Chuck.

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

Thanks for the review, Frank. At this point, operator, if we could please poll for questions.



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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). Chris Schott, JPMorgan Chase & Co..

### Chris Schott - JPMorgan Chase & Co. - Analyst

Just a first question, I guess a couple of questions on Prevnar. First, ex-U.S., it looks like much of the franchise has now converted over to -- or a decent portion to the 13 version of Prevnar. Yet, we haven't seen a significant ramp in (technical difficulty) relative to legacy Wyeth levels. Just elaborate a little bit more what's happening with Prevnar internationally, maybe talk about price dynamics, as well as the impact that Synflorix is having on the business.

My second question was on gross margins. Even adjusting for the FX benefit this quarter, where you picked up a very strong result in the quarter considering the loss of EFFEXOR, was there anything unusual here or just are we starting to see some of the benefits of restructuring or is there anything else we should be aware of? And as a follow-up to that, how are you thinking about trough gross margins as we consider the patent expiration of Lipitor late next year? Thank you.

### Jeff Kindler - Pfizer Inc. - CEO, Chairman of the Board

Ian?

### Ian Read - Pfizer Inc. - Group President BioPharmaceutical Businesses

Chris, on Prevnar internationally, we are approved in 72 countries. We've been launched in 45. We're on 22 NIPs, and there is about, I think, 11 more coming.

I think the volume is doing well. In markets where it is the physician's choice on Prevnar, we have about a 70% to 80% share of that marketplace. And I would say on the overall emerging markets, the only -- the -- we are winning where we expect to win and probably the only market where we haven't won, which is a disappointment, was Brazil, where Synflorix took the NIP in Brazil.

### Frank D'Amelio - Pfizer Inc. - SVP, CFO

And on the gross margin question, Chris, let me just run some numbers and then I'll answer the question.

Our cost of sales guidance at the beginning of the year was 19% to 20%. We lowered that to 18.5% to 19% this quarter. Now for the quarter, cost of sales was 18.3%. If you remove the benefits of foreign exchange that they had on COGS this quarter, 18.3% becomes 19.7%. But the overall, I'll call it, strength in our cost of goods sold is really being driven by our restructuring, our focus on cost reduction, all of the things that we've been doing to really manage our cost structure.

So, nothing unusual to answer your question specifically. It's really based on the actions that we've been taking.

In terms of beyond Lipitor, the last part of your question, I think if you look at the rhythm of the business and where the growth is, the growth will put some pressure on our gross margins, but not on our operating margins. If you look at our targets for 2012, we have operating margins in the high 30s to low 40s, which is where our operating margins are today. So, even so some of





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that growth will have lower gross margins than it does today, they will have lower expenses, and we believe we can maintain our operating margins.

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**Operator**

Marc Goodman, UBS.

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**Marc Goodman** - UBS - Analyst

Just to continue on Plevnar, can you talk about -- it seemed very strong in the U.S.. Was there anything unusual there?

And then, on inventories for any of the products just versus second quarter or third quarter, were there any major movements?

And then, maybe also if you could talk about Lipitor a little bit in the rest of the world and the emerging markets. It seemed a little weaker than we were expecting. Thanks.

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**Ian Read** - Pfizer Inc. - Group President BioPharmaceutical Businesses

Plevnar in the U.S. was nothing unusual in the third quarter. It's mainly driven by the impact of the price increase and the impact of the catch-up on demand. So, it was pretty much in line with what we expected. No major inventory movements on Plevnar in the U.S. in the quarter. And then --.

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

Lipitor.

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**Ian Read** - Pfizer Inc. - Group President BioPharmaceutical Businesses

Lipitor internationally was impacted by the LOE in Canada and the LOE in Spain, and in the quarter it had about a negative \$200 million impact on us. It was slightly faster than we had expected.

Both those markets have been traditionally slower to see brand erosion. Spain is a brand-loyal market and Canada was normally less aggressive than the U.S.. We didn't see that with Lipitor in this quarter. So, that was a \$200 million impact, and overall in the international markets, it's been somewhat impacted in Eastern Europe and parts of Asia with price decreases.

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**Operator**

John Boris, Citi Investment Research.

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**John Boris** - Citi Investment Research - Analyst

It just has to do with one of the statements in your press release. Can you just expand maybe a little bit on the price pressures and help us -- help quantify what you saw in Eastern European countries and markets in terms of price pressures?

You also indicated that there were some wholesaler purchasing patterns that obviously influenced the ex-US -- weaker ex-US sales results, and then, the third part of that same question relates to the emerging markets, which appeared to be flat ex-China. Just any additional granularity or commentary on that. Thanks.



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**Ian Read** - Pfizer Inc. - Group President BioPharmaceutical Businesses

So, why don't I take, Chris -- sorry, John. Why don't I take the emerging markets first?

They were flat in the quarter, and we've always said emerging markets would be volatile. If you look at the, as Frank mentioned, at the BRIC markets or the BRIC-MT markets, up 5% in the quarter, up 10% year to date. The impact in the third quarter across all emerging markets was really focused in Eastern Europe and Russia with a little bit of Asia.

We are seeing price increases in Romania, Czech Republic, Taiwan, Thailand, and inventory -- or wholesale inventory reductions specifically in Russia as they adjust to the economic situation.

We expect to see some softness continuing, I think, in Russia in the fourth quarter. But overall, when we look at it and take out the price decreases and the inventory adjustments, our unit growth is running at about 10% in the emerging markets.

And then, when you look at that and you look at an interesting fact, if you compare the launch sequencing between developed markets and emerging markets, we have about 22 launches in the emerging markets that we will do in 2011 and 2012, which is a very different pattern from the launches in the developed markets.

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

And if I could just punctuate something Ian said, that typically in Europe we expect pricing pressure in the low single digits. On the last earnings call, we talked about that being in the mid-single digits, and the second half of the year, that is indeed what we are experiencing. We are experiencing pricing pressure in Europe in the mid-single digits overall.

**Operator**

Tim Anderson, Sanford C. Bernstein & Company, Inc..

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

I'm not sure if anyone is there to answer pipeline questions, but I've got a couple, which is on the JAK-3 inhibitor. We have data coming up November 10. I'm wondering when the next Phase III is likely to report out beyond November 10, and also, are we likely to see any interim radiographic data report out in the first half of 2011?

And on Plevnar 13 in adults, I'm just wondering when we might see that immunogenicity data that you will file on, and can you reiterate your thoughts about whether FDA will require the capita [outcome] study for approval, which I think Wyeth used to say was not going to be required.

**Ian Read** - Pfizer Inc. - Group President BioPharmaceutical Businesses

On the Plevnar adults, we're filing in the fourth quarter. We expect you will see the results in the first half of 2011 and we believe we can file without the capita data.

And the other question was on tasocitinib. Most of the other trials will report out in 2011 and in the second half of 2011, and I believe the structured data will report out in the first half of 2011.



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**Operator**

Jami Rubin, Goldman Sachs.

**Jami Rubin - Goldman Sachs - Analyst**

A question both for Jeff and to Frank. Jeff, in relation to your plans to consider alternatives for Capsugel, does this signal a change in your view about keeping the other non-core assets, such as animal health -- animal health, consumer, and nutritional?

And how much time are you giving yourself? I appreciated your opening comments. It sounds like you're obviously managing the portfolio dynamically, but how much time are you giving yourself to make a decision with respect to these and other assets, especially given where the multiple is in the stock, and I think that would beg the question that maybe investors don't appreciate some of these other assets.

And my other question, both for you and to Frank, is that it is very good to see the continued share repurchase programs, but \$500 million still reflects a relatively lackluster pace, especially given your low stock P/E multiple and \$20 billion in operating cash flow. So my question is this. Is this the pace that we should come to expect? Or do you see an opportunity to be more aggressive, especially in light of record low borrowing costs? And I would also like to know how you think the IRRs on whatever M&A you might be considering would compare to the IRRs on share repurchase programs. Thanks.

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

Jami, I'll take the first question. As I've said before, my view hasn't changed about this. I said previously, and I said it again this morning, that we are engaged in a continuous review of the role of each of our businesses, not frankly just even the ones you mentioned.

Every business has to demonstrate on an ongoing basis that it's creating shareholder value in accordance with the strategic purpose of that business, with the return on capital that it's producing, that it's creating more value inside Pfizer than outside Pfizer. That can range from all kinds of alternatives. The Capsugel decision to consider strategic options for it was the result of one such review. And that's our obligation in managing a portfolio of businesses consistent with what I talked about at the last quarter.

So my view on that hasn't changed.

In terms of timing about, that's an ongoing process. I think that's our obligation in managing a portfolio of businesses, and we have had this particular collection of businesses for just about a year. We are continuing to evaluate the opportunities that having these businesses together may create within Pfizer and exploring the degree to which some of the businesses you mentioned may create more value together than in other forms, and we'll continue to do that. And that's an ongoing process and we'll always be engaged in that process, both in terms of potentially looking at businesses for strategic reviews, as well as bringing in businesses like we did with King.

So, I think that's just in the nature of managing what I call a dynamic portfolio of balanced businesses, balanced both in terms of their risks and their opportunities. And I'll let Frank address the share repurchase issue.

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

So, let me just run some numbers first, and then I'll answer the question. So this quarter, we bought back about 30 million shares, \$500 million worth of our stock. Last quarter, we also bought back \$500 million of our stock, about 30.8 million shares. So about \$1 billion of our stock has been repurchased.



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By the way, the average price on that \$1 billion is about \$16.40.

In addition to that \$1 billion, we'll be paying out in a dividend this year about \$6 billion. So between the stock buyback and dividend this year, directly returning capital to shareholders in the amount of about \$7 billion, and significant unforeseen events aside, we expect the Board to approve a dividend increase at our upcoming December meeting.

In terms of what we're going to do going forward, what I would say is buybacks are clearly something we will continue to be opportunistic about as market conditions warrant, and remember, we have other potential uses of our capital like we did this quarter. This past quarter, we committed about \$4 billion of cash for business development opportunities, which are the transactions that Jeff talked about, with the biggest piece of that commitment obviously being King Pharmaceuticals.

And then, in terms of the returns on those business development transactions, obviously they're based on projections that we have to execute on, but we will execute and those returns are favorable. So, that's how I think about it.

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**Operator**

Catherine Arnold, Credit Suisse.

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**Catherine Arnold - Credit Suisse - Analyst**

As we speak, the FDA is evaluating means for getting advancement in biosimilar pathway, and so I think that, with that in mind, I was wondering if you could disclose what your lead biosimilar programs are and when you plan on giving more details on this business?

And I also wanted to ask you about tanezumab and if you could comment on the status of that regulatory hold, and why other competitive programs may not have been impacted, and your company's interest in pursuing smaller targeted markets like cancer pain.

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**Ian Read - Pfizer Inc. - Group President BioPharmaceutical Businesses**

Taking tanezumab first, we are still working through this little hole with the FDA, and I really can't comment on why other programs -- what the consequence in other programs are, Catherine. We'll continue to work with the FDA through, I think, for three to six months on that, and see what happens.

On the biosimilars, I think our first biosimilar launch is with Protalix into that space, and then we've just signed a deal with Biocon for the insulin biosimilars. And we are targeting about 10 molecules internally and externally that we want to develop. We're going to leverage the resources from Wyeth and the expertise, and I expect the first launches from internally-developed molecules to be round about 2015, 2016.

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**Operator**

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 meningococcal B vaccine, can you just tell us when you are going to share with the investment community or in some more public fashion the Phase II data, and also what your plans are for Phase III?



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And then, second, with respect to foreign exchange, can you just quantify the benefit to EPS in the quarter? Thank you.

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

Sure. I'll let Frank handle the foreign exchange question and Mikael Dolsten will address the vaccine.

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

Dave, FX negatively affected revenue in the quarter by \$160 million, total company; positively affected adjusted total cost by \$298 million. Net net, the favorable -- it was a favorable impact to EPS for the quarter of a penny, \$0.01.

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

Mikael?

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**Mikael Dolsten** - Pfizer Inc. - SVP & President, Worldwide Research & Development

We discussed some of our Phase II data at the recent Neisseria conference in Canada, and basically what we've shown is very robust immune responses after two and reaching all our set goals after three immunizations.

And we are in the phase of planning for the Phase III studies, based on looking at all the options for trial design in adolescent population. And we feel that we have a robust data set with good efficacy signals and tolerability, and that makes us encouraged to take that decision to go into Phase III planning.

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**Operator**

Tony Butler, Barclays Capital.

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**Tony Butler** - Barclays Capital - Analyst

Three brief questions. Two on cash and cash uses. One is, is this final payment to Quigley's, does this put Quigley behind Pfizer in total?

Second, Frank, if you could comment on cash uses. You've laid out -- or you and Jeff have laid out comments around share buyback, dividend, and some corporate development. But what about paying down the existing debt, maybe needing to repatriate less money, and the overall effect or positive effect that may have on tax use?

And then, thirdly, back to meningococcal B, Mikael, if you could actually discuss the rationale for looking at adolescents versus that of infants, at least initially, on meningococcal B, if in fact that is to go forward in Phase III? Thank you.

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

Okay, Amy, why don't you start with the Quigley question?



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**Amy Schulman** - Pfizer Inc. - SVP, General Counsel

Sure, thank you, and as you know, we recorded a charge in the third quarter related to Quigley. I'd like to just put that in a little bit of context by stepping back and just to make sure everyone is on the same page with respect to the Quigley situation.

As you know, we had previously submitted a plan to the bankruptcy court, and as part of that plan, there was an injunction which remains in place as we work within the parameters of the judge's September 2010 decision. In which -- in the context of denying the confirmation, he set forth a road map for what needs to go forward, and we're working within that roadmap, and we believe that our next hearing in December, we will have satisfied the judge's concerns with respect to the reorganization plan.

So we think that that contribution will satisfy the court and the judge's concern, although it is possible that there will be additional amounts or changes to the plan. But our goal is to move this to finality promptly.

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

Frank?

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

On the potential uses of capital, Tony, you have it right. It's no change in my mind from what I've said previously. There's five or six buckets, I will call them major buckets, that we can deploy capital in.

Share buybacks and dividends are clearly one bucket. Business development is another bucket, and debt paydown is another one. The amount of cash that we repatriate is another one, and quite frankly, investing in the business, whether it be new product launches or R&D or our in-line portfolio or our geographic and business unit investments or capital expenditures. So, all those things are potential areas where we can deploy our capital.

From my perspective, what we try to do and what I believe we do is deploy capital in a way that's best from a total shareholder return perspective over time. That's what we've been doing. That's what we will continue to do, and consider all those alternatives as we go forward.

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**Mikael Dolsten** - Pfizer Inc. - SVP & President, Worldwide Research & Development

Concerning the question of meningococcal B, so there are around 20,000 to 80,000 people that are affected every year, and 2,000 to 8,000 actually -- cases with mortality, and a significant proportion of those are in that adolescent population.

In addition to that, the adolescent population is the real carrier of the meningococcal B bacteria, not the infants. So we think for pronounced reduction of the spread of this bacteria, the adolescent offers both protection for the individual and reduction in the population.

And the final comment is that, as I mentioned, tolerability in adolescents is really good. And if you look at the conference where data from us and one of the competitors are, you will note that in general in the infant, which was presented by another company, there is -- usually has been seen in this field more issues with particular fevers, so we think we have a really good positioning of this new vaccine.

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**Operator**

Steve Scala, Cowen and Company.



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**Steve Scala** - Cowen and Company - Analyst

I have two questions. First, a follow-up on the Prevnar 13 adult filing. Since the filing will include capita, would you describe the minimum acceptable efficacy threshold for that filing? How compelling must have been the difference in the number of cases of community-acquired pneumonia in the Prevnar arm versus the placebo arm to justify the filing? And is there any regulatory risk, given that Pfizer apparently does not have data versus an active comparator? So, that's the first question.

Second question is, what share does Ranbaxy have of the Canadian market with its generic Lipitor? How would you describe their ability to supply and what should we learn from that regarding their ability to supply the U.S., critical because, of course, they are the first to file company.

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

Okay, Ian, do you want to clarify about the capita trial?

**Ian Read** - Pfizer Inc. - Group President BioPharmaceutical Businesses

Sorry, to clarify that, Steve, we will not have capita data when filing. We'll file on immune response and we believe the data will -- is sufficient to file, and so I think we must have been misunderstanding on the capita data being available.

And vis-a-vis Ranbaxy, I really can't comment on what they're doing in Canada.

**Operator**

Manoj Garg, Soleil-Healthinc Advisors LLC.

**Manoj Garg** - Soleil-Healthinc Advisors LLC - Analyst

This is for Frank or somebody on the mature markets team, two questions. First on EFFEXOR, can you describe how the pricing strategy there and anything that you've learned that would enable or prevent you from utilizing a similar strategy on future expirations?

**Ian Read** - Pfizer Inc. - Group President BioPharmaceutical Businesses

The pricing strategy on EFFEXOR was -- our pricing strategy was reasonably effective. I think we retained a reasonable portion of the scrips post the launch, and pricing strategies really vary molecule by molecule and circumstance by circumstance. So I don't think it's a one-size-fits-all pricing strategy when you come to generic launches.

**Operator**

Seamus Fernandez, Leerink Swann & Company.

**Seamus Fernandez** - Leerink Swann & Company - Analyst

(Technical difficulty) on Lipitor and how that could possibly limit U.S. generic entrance post-November 2011.



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

Seamus, we didn't hear the beginning of your question. Could you start again, please?

**Seamus Fernandez** - Leerink Swann & Company - Analyst

Okay. Can you just tell us how you think about the 2016 API patent on Lipitor and how this could possibly limit U.S. generic entrance post-2011? I know that's the basis of the Ranbaxy settlement.

And then, separately, it's my understanding that Pfizer also has a patent on Viagra that runs considerably longer than the 2012 sort of assumed composition of matter patent expiration. Could you talk a little bit about this patent, and whether or not Pfizer has any plans to prosecute it? Thank you.

**Ian Read** - Pfizer Inc. - Group President BioPharmaceutical Businesses

I'll start, and Amy may want to add. I don't -- our full expectation is that we will have generic Lipitor in the marketplace post-November 2011.

And on the Viagra patent, the -- from memory, the composition of matter patent goes in 2012, and we have a use patent which we believe is effective and in place in the United States through 2016. So we'll see how the market dynamics work on the strength of the use patent post the composition of matter patent expiration.

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

Operator, I believe we have time for one more question, please.

**Operator**

Jeff Holford, Jefferies & Company.

**Jeff Holford** - Jefferies & Company - Analyst

I've got two questions. The first is, can you just talk us a bit more through this revenue range tightening? We've lost \$1 billion from the guidance range this year. Just go through the factors a bit more that drive that, and how we should think about 2011, 2012 growth in targets in light of this? How do we have the confidence in the 2012 range, the 2010 range being cut?

And then, just thinking a bit longer term, strategically, I see you're committing to not really pursuing large-scale M&A prior to and during 2012. Does that mean in 2013 potentially Pfizer might be looking once more to a large-scale consolidation in your long-term strategic planning?

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

So on the 2010 revenue range, to your point, we tightened the range from what was \$67 billion to \$69 billion to the latest guidance update, which is \$67 billion to \$68 billion. So that's the tightening that you're referring to.

Please remember, when we gave that \$67 billion to \$69 billion, that was the end of January, early February. We did not have factored into the guidance at that time the impacts of healthcare reform in the U.S. or European pricing pressures.





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Despite that, we were able to maintain our guidance range that we issued at the beginning of the year, although we did tighten it. So from my perspective, we did exactly what we said we were going to do. We did tighten the range, but we absorbed in that range two items that were fairly significant, neither of which was in the range when we initially disclosed it back at the beginning of the year.

In terms of our 2012 targets, the revenue targets for 2012 now are a range of \$65.2 billion to \$67.7 billion, and we've said that they assume a modest level of business development, up to 5% of the total, and so if you do the math, 5% on that, call it \$3 billion to \$3.5 billion, we got about half of that done this past quarter, particularly or primarily from the King acquisition.

We have said, although we never rule out anything, we've said our objective is bolt-on acquisitions in the couple, the billion dollar space focused on emerging markets, established products in our invest-to-win areas. That is our strategy. That continues to be our strategy. So, that's all.

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

Thank you, everybody, for your time this morning.

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

Thanks, everyone.

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**Operator**

Ladies and gentlemen, this concludes today's conference. You may now disconnect.

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