

FINAL TRANSCRIPT

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PRESENTATION

Operator

Good day, everyone, and welcome to Pfizer's fourth-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.



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Chuck Triano - Pfizer Inc. - SVP IR

Good morning, and thank you for joining us today to review Pfizer's fourth-quarter 2010 performance, 2011 financial guidance, and 2012 targets.

I'm here with our CEO, Ian Read; Frank D'Amelio, our CFO; Olivier Brandicourt, President and General Manager of Primary Care; Mikael Dolsten, President of Worldwide Research and Development; Geno Germano, President and General Manager of Specialty Care and Oncology; Amy Schulman, our General Counsel and Business Unit Lead for Nutritionals; and David Simmons, President and General Manager of Emerging Markets and Established Products.

Financial charts that will be presented on this call can be viewed on our home page, Pfizer.com, by clicking on the link for Pfizer quarterly corporate performance, fourth quarter 2010, which is located in the investor presentation section in 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. 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 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. 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, February 1, 2011. These reports are available on our website, Pfizer.com, in the investors SEC filings section.

With that, I will now turn the call over to Ian Read. Ian?

Ian Read - Pfizer Inc. - CEO

Thanks, Chuck. Let me begin by welcoming everyone to our call today.

I'll start with a few comments about 2010. We ended the year with a clear focus on meeting our financial commitments, managing our cost structure, executing on our strategy, successfully integrating Wyeth, and enhancing shareholder value. I'm pleased to report that we made steady progress across these areas and finished 2010 on a strong note, with a very solid fourth quarter and a solid year overall.

Frank will take you through the details shortly, but there are a few notable highlights for the year. We met our top- and bottom-line commitments. We are on track to achieve our multiyear targeted cost reductions. We grew revenues in key emerging markets like China and Brazil. We grew key assets in our branded portfolio, Prevnar 13, Lyrica, Enbrel, Sutent. We saw encouraging results in our late-stage pipeline, Prevnar 13 Adult; [tofocitinib], the new name for tasocitinib; crizotinib; and apixaban.

We expanded the portfolio through strategic and disciplined business development deals, King, Teuto, Biocon, and we returned a meaningful level of capital to shareholders through dividends and share repurchases.

In summary, I would say 2010 was a year we once again did what we said we would do. We made additional progress in laying out a solid foundation to build sustainable shareholder value over time.

I'd now like to spend some time sharing my thoughts about Pfizer's future, our key challenges, and the steps we are taking to shape our future. As most of you know, I've spent my career at Pfizer. It's an honor for me to take over as CEO at this important time for both Pfizer and the industry.



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We operate in an industry that continues to face multiple challenges. There is ongoing pressure from payers, governments, and society to deliver greater value. Growth is slowing in traditional markets and shifting to rapidly-expanding emerging markets, where different approaches and different resource levels are required.

And universally, the industry has to find an innovative model that produces consistent returns.

We understand these challenges, and I remain very optimistic that Pfizer will be a leader in driving the right solutions. I believe no company is better prepared to address, head on, the market dynamics. We have the talent, global footprint, commercially competitive businesses, capital resources, and the foundation for leading-edge science, which now includes small molecules, large molecules, vaccines, and different modalities represented by Rinat and CovX.

My job as CEO is to manage and focus our capabilities, assets, and talent to drive the most value for our shareholders. We will invest our human and financial capital in those areas where we can lead, and where we don't have core capabilities, we will look to partner or license assets. We are evolving our culture, including research, to be a results-driven and entrepreneurial organization.

For 2011, we will continue to take a hard look at our core capabilities. During today's call, I'm sharing with you the important first steps I and my leadership team have underway to position Pfizer for the future. I will focus on our financial targets, our plans to address R&D productivity, the pipeline, our business portfolio, and plans for capital allocation.

Starting with our financial targets, I believe we have provided a greater degree of certainty regarding our 2012 adjusted diluted EPS target, which we have maintained and strengthened our ability to grow earnings beyond 2012. The revenue range we are sharing with you today includes projected revenue from the King acquisition, but no longer includes any revenue contribution from future business development.

This does not mean that we've decided to pull back on pursuing business development. Our approach will be -- continue to be optimistic and disciplined. We will pursue those deals that best enhance the portfolio and give us the best opportunity for growth. If we believe that a deal will meaningfully impact our targets, we will adjust them accordingly. With this approach, I believe we are providing both a transparent and disciplined use of shareholder cash.

Next, I'll go through the meaningful steps we have taken to improve the performance of our innovative core. I fundamentally believe in the power of innovation in pharmaceuticals, but I recognize to be successful over time we need to substantially improve the rigor of our approach. First, we will sharpen our focus to the core research areas that give us the best promise for scientific and commercial success. We will maintain or increase investment in neuroscience, [CD med], oncology, inflammation and immunology, and vaccines.

In addition, these areas will be augmented by the advanced modalities delivered by CovX and Rinat. We will put in place dedicated units focused on pain and sensory disorders and biosimilars.

We will stop funding in areas of greater risk and/or less productivity, such as allergy and respiratory, urology, internal medicine, and tissue repair, and we will create focus within our post-POC portfolio, the proof-of-concept portfolio. This will include a mix of owned and partnered assets in our high-priority disease areas that together will improve our risk/return profile. Key actions will be determined over the next few months.

Second, we will set up industry-leading models for external collaboration that allows us to share risk and gain access to the best science and technology. We will do this through strategic collaborations of industry and academia, like the announcement that seven of New York City's top research hospitals are joining Pfizer's Centers for Therapeutic Innovation; establishing external research units and collaboration to focus on high potential areas in primary care and specialty care, such as women's health, urology, genetic diseases, and retinal care; in-license IP to access high-quality external molecules and technology platforms;



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and focusing internal Pfizer R&D capabilities in areas where we deliver unique value, i.e., target selection, molecule design and selection, and safety and regulatory strategies.

We will look to establish external relationships with those R&D capabilities that do not drive competitive value for Pfizer, such as API and dosage form manufacturing, toxology study conduct, monitoring, and bioanalytics. With this change to our services model, we will create greater financial flexibility and reduce capital deployed.

Third, we are strengthening the fundamentals that drive biomedical innovation with a series of actions, including more closely aligning our global R&D network footprint with key hubs for science and technology. We intend to enhance our presence in Cambridge, Massachusetts, to complement our existing R&D network, including those sites located in hubs like San Francisco, New York, La Jolla, and Cambridge UK.

We are establishing and embedding a strong precision-medicine platform across R&D to drive the next generation of high-impact differentiated medicines and vaccines, and we are driving a greater and tighter integration of science and business through an alignment between our research units and business units. This includes a more rigorous portfolio decision-making and governance process.

We are also proposing to make several significant changes to our global R&D network. This includes a proposal to exit the Sandwich UK site and reduce and then shift certain resources in Groton, Connecticut, to Cambridge, Massachusetts. This is not a reflection on the UK operating environment or the quality of science in the UK. Rather, it's a business decision to focus our R&D footprint in must-win areas.

Taken together, we expect that all of these actions will have the net effect of reducing the R&D spend to the range of \$6.5 billion to \$7 billion during 2012, as compared to our original target of \$8 billion to \$8.5 billion. More importantly, we believe these actions should strengthen our engine for innovation. We believe they will better balance our modality mix, improve our probability of technical and regulatory success, deliver more differentiated products, and yield a higher return on investment for R&D, while achieving a small and flexible cost base.

Turning to our existing pipeline, we now have a very promising mix of small molecules, biologics, and vaccines, something we have never had before at Pfizer. We will be tracking several key late-stage assets through 2011, including [tofocitinib], apixaban, Prevnar 13 Adult, crizotinib, axitinib, and bosutinib. We know there's more work to do here, and the actions we are taking to improve R&D productivity form the foundation of our efforts.

In addition, we are giving more business ownership and accountability to our chief scientific officers to create a greater ROI mentality in research, and we are establishing clearer metrics for proof-of-concept success. We believe we are putting in place the tools, talent, and decision-making authority that will help us not merely move to in line with the industry, but to become a leader in the industry.

Now, turning to our business portfolio, I believe we have strong commercial capabilities. We are the number one player across many of our businesses -- primary care, specialty care, and animal health. We will continue to look at the value-creation potential of all our businesses. This includes the investment needed to make them profitable, growing businesses; their competitive global position; and where they can create the most value, be it inside or outside of Pfizer.

We have already initiated several actions, including continuing to invest in emerging markets, where we are significantly increasing our geographic reach and field force in China to support a very strong product portfolio that is well aligned with patient needs and demographics; launching a competitive sterile injectables business that has attractive returns within the established products business; solidifying our primary-care pain portfolio with the King acquisition; and exploring strategic alternatives to Capsugel.



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The mere fact that we have size and scale will not be a driver for how we make decisions. It will, however, help enable us to make decisions that can enhance our competitive market position through smart business development choices. As an underlying principle, we want to ensure that the whole is greater than the sum of the parts.

We established the current business line-up about 16 months ago. Our job is to make sure Pfizer is taking the best actions for each of these businesses to maximize the value they create and their potential return to shareholders. This has been an ongoing process, which we will expect to complete during 2011, and I will update you regarding any decisions we take during the year.

And finally, a few words about the actions we are taking to directly enhance shareholder value. The Board increased the dividend for the first quarter 2011. We continue to target a dividend payout ratio comparable to the current industry average of approximately 14% in about three years.

We are reallocating cash in order to expand our share repurchase activity. The Board approved a new \$5 billion share repurchase plan, which increases our total remaining current authorization to \$9 billion. We intend to purchase approximately \$5 billion this year. We believe this will provide our shareholders an attractive return, while also giving a higher degree of control and certainty regarding initiatives that can directly impact EPS, without sacrificing our ability to do bolt-on deals. The growth in the dividend, in addition to our share repurchases, will result in significant capital allocation directly to shareholders.

In closing, let me end this call where I began. We started 2010 focused on enhancing shareholder value. As we enter 2011, we are squarely focused on accelerating these efforts. Frank will be getting into more detail in a moment, but in summary, I believe we have provided a greater degree of certainty and a more clearly-defined path to achieve our 2012 adjusted diluted EPS target, taken a significant step forward in addressing the R&D productivity challenge, targeted completing a business portfolio assessment during this year that will focus on shareholder return, and made significant capital allocation decisions.

At the same time, we are building a strong late-stage product pipeline and continue to have financial flexibility.

As I look ahead, I can say with confidence that we are investing in the right areas of growth to take advantage of our core capabilities, we are taking the right actions to manage our costs and expenses, and we are building an entrepreneurial culture that makes the most effective use of our global talent.

Now, let me turn over to Frank to give you more detail on the quarter and the years 2011 and 2012.

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

Thanks, Ian. Good day, everyone. As always, the charts I'm reviewing today are included in our webcast.

Now let's move on to the fourth-quarter financial results. The \$1.1 billion, or 6%, year-over-year increase in fourth-quarter 2010 revenues was primarily attributable to the addition of Wyeth products, which favorably impacted revenues by \$2.3 billion, or 14%, partially offset by a decrease of \$1.2 billion, or 7%, in legacy Pfizer product revenues and a \$70 million, or 1%, negative impact from foreign exchange.

The year-over-year increase in fourth-quarter 2010 reported diluted EPS was primarily due to revenues from Wyeth products and lower restructuring charges associated with the Wyeth acquisition. These were partially offset by lower revenues from Pfizer products, expenses associated with legacy Wyeth operations, and charges for asbestos litigation. Also during the quarter, we reached a settlement with the IRS which had a favorable impact on net income.

Finally, adjusted diluted EPS decreased 4% year over year to \$0.47 per share. While revenues from legacy Wyeth operations and a decreased effective tax rate favorably impacted adjusted diluted EPS in the fourth quarter, it was unfavorably impacted by expenses from legacy Wyeth products and lower revenues from legacy Pfizer products.



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Fourth-quarter adjusted total costs were negatively impacted primarily by the addition of Wyeth operations and, to a lesser extent, foreign exchange. The increase in adjusted cost of sales as a percentage of revenue from 17.5% to 21.5% was primarily due to the change in the mix of products and businesses resulting from the addition of Wyeth operations and the negative impact of foreign exchange.

The 7% increase in adjusted SI&A expenses was primarily driven by the addition of Wyeth operations. R&D expenses were essentially flat, due to ongoing cost reductions that were offset by the addition of Wyeth operations and continued investment in our late-stage development portfolio.

In the fourth quarter 2010, foreign exchange had a negative impact of \$70 million on revenues and a negative impact of \$96 million on adjusted total cost. In total, foreign exchange negatively impacted fourth-quarter adjusted diluted EPS by approximately \$0.01.

Revenues from our Biopharmaceutical business increased 3%, or about \$450 million, to \$15.1 billion in the fourth quarter, with operational growth of 4%, of which \$1.6 billion, or 11%, was attributable to legacy Wyeth products, which was partially offset by a \$1.1 billion, or 8%, decrease in revenues from legacy Pfizer products.

Within the Biopharmaceutical units, legacy Pfizer's year-over-year operational performance reflects the continued negative effect of the loss of exclusivity of certain products, including Lipitor, which lost exclusivity in Canada in May of 2010 and Spain, July of 2010; as well as Aricept in the U.S. in November of 2010, which in the aggregate decreased legacy Pfizer's primary-care revenues by about \$500 million year over year.

That said, select Pfizer brands, such as Lyrica, Chantix, and Celebrex, among others, experienced growth in key international markets, especially Japan. In addition, continued pricing pressure in Europe and the impact of U.S. healthcare reform also negatively affected Biopharmaceutical revenues in the fourth quarter.

Fourth-quarter diversified revenues increased year over year by approximately 34%, due to the addition of Wyeth products. Fourth-quarter revenues generated in emerging markets, which include both legacy Pfizer and legacy Wyeth Biopharmaceutical and Diversified operations, increased 38% year over year.

It's important to note that, over the same period, Brazil, Russia, India, China, Mexico, and Turkey contributed a combined 47% to the overall growth in emerging markets. And legacy Pfizer Biopharmaceutical revenues in these BRIC-MT markets grew operationally by 5% in the fourth quarter and by 9% for the 2010 fiscal year.

As you can see on the chart, in 2010 we again met or exceeded all elements of our full-year financial guidance, including achieving more than \$2 billion, or 50%, of our cost-reduction target.

All right, I'd like to comment specifically on a few elements of our 2011 guidance. In particular, we expect reported revenues in the range of \$66 billion to \$68 billion.

Cost of sales as a percentage of revenues of 19.5% to 20.5%, which is primarily driven by the shift in business and product mix resulting from the Wyeth acquisition, the continued shift in geographic mix with a greater percentage of revenues expected from emerging markets and from established products, the loss of U.S. exclusivity of Lipitor later this year, and the impact of the Puerto Rico excise tax; adjusted SI&A expenses in the range of \$19.2 billion to \$20.2 billion, which is similar to the 2010 level of \$19.5 billion, driven by our continued expansion in emerging markets; the reclassification to SI&A of the U.S. healthcare reform fee; planned investment in new products, such as Plevnar 13 and in support of late-stage assets.

It's also important to note that while the overall trend in spending in support of Lipitor will continue to moderate, in 2011 we continue to invest in certain markets, such as Europe and Japan, where Lipitor is still under patent protection.



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We expect 2011 adjusted R&D expenses in the range of \$8 billion to \$8.5 billion, and finally, we expect adjusted diluted EPS in the range of \$2.16 to \$2.26.

We've updated some of the elements of our 2012 financial targets, and we now expect reported revenues in the range of \$63 billion to \$65.5 billion, which includes anticipated revenue from our acquisition of King Pharmaceuticals, but does not assume any meaningful revenue contribution from future business development transactions; adjusted R&D expenses in the range of \$6.5 billion to \$7 billion, which reflects the impact of our efforts to improve innovation and overall productivity while focusing our investments in areas that we believe provide the best opportunity for scientific and commercial success; adjusted other income and deducts to be approximately \$1 billion; the effective tax rate on adjusted income to be approximately 29%; and reported EPS to be in the range of \$1.58 to \$1.73.

In addition, we're providing for the first time a target range for 2012 adjusted S&A expenses of \$17.5 billion to \$18.5 billion, which is notably lower than our 2011 guidance. The remaining elements remain unchanged, including adjusted diluted EPS. It's important to note that our adjusted diluted EPS range of \$2.25 to \$2.35 per share includes the favorable impact of expected revenue growth from key in-line and new products, including Enbrel, Lyrica, and Prevnar 13, and the anticipated revenues from our King acquisition; expected revenue growth in emerging markets, established products, and in diversified businesses; lower S&A and R&D expenses; and the full-year effect of our planned repurchase of about \$5 billion of our common stock during 2011.

So moving on to key takeaways, first and foremost, we met or exceeded all components of our 2010 financial guidance, including our 2010 operational cost-reduction target, we provided financial guidance for full-year 2011, and we also anticipate completing the ongoing review of our portfolio during 2011. And finally, we've updated our 25 financial targets to no longer assume any contribution from future business development transactions in our revenue targets, to reflect the significant increase in planned share repurchases, to add a target range for S&A expenses that is significantly lower than the 2011 guidance range, and to reflect lower R&D expenses.

And we're reaffirming our 2012 adjusted diluted EPS target range of \$2.25 to \$2.35, which incorporates the full-year effect of the \$5 billion of anticipated share repurchases in 2011. Now, I'll turn it back to Chuck.

Chuck Triano - Pfizer Inc. - SVP IR

Thanks, Frank, and at this time, operator, if we could please poll for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). David Maris, CLSA.

David Maris - CLSA - Analyst

Good morning, and a few questions. First, Ian, you touched a little bit on this in your prepared comments, but if you could expand on it, on your view of the state of the company and since taking on the new role, is there anything that you, the Street, or investors don't fully appreciate, either on the positive side or the challenges going forward? And then, I have one quick follow-up.



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Ian Read - Pfizer Inc. - CEO

Okay, well, on the state of the company, I think we went through a pretty good review of 2010. I think we're in a solid position.

We managed to beat slightly our target, despite hits from European pricing and U.S. healthcare reform and slightly faster erosion in Spain of Lipitor than we expected. We grew our key assets. So, I believe we are, as a Company, where we wanted to be at this stage.

The sort of late-stage pipeline needs to come through. I think Pfizer certainly is ready for a win in that late-stage pipeline, and I'm sort of optimistic about how those products can come through over the next couple of years.

Operator

Chris Schott, JPMorgan Chase & Co..

Chris Schott - JPMorgan Chase & Co. - Analyst

Just two questions here. First up, Pfizer has previously expressed an interest in increasing its exposure to the generic business and building out that established markets' portfolio. Is that something that's still of interest and on the table at this point? Or do you think you have addressed that through the string of partnerships we've seen over the last year or so?

And then, second, in the past I believe Pfizer has commented something to the extent that a larger deal, for example, something north of \$10 billion or \$15 billion, was not on the table at the current time. Is that still the case, and can you just more broadly comment on the size of transactions you might be targeting at this point? Thanks.

Ian Read - Pfizer Inc. - CEO

I'll make some initial comments, and then I'll ask David and Frank to add to that.

So I think on the established products, it's a core business unit for us. It's doing what we ask it to do. I think for its -- we're going to evaluate, as I said, all of our business units during 2011 from the point of view of their strategic positioning and return.

I would say that EP's critical strategic decision is how do we continue to source that business with a wide range of products going forward. Our present strategy is to do that through in-licensing and partnerships, and we need to review that and look at if that is sufficient or do we need to bring that capability internal to Pfizer.

And then, regarding the business deals, I don't -- we've never said never to any deals. I think we've talked about them being bolt-ons, talked about doing them if they fit, the specific gaps or needs of a BU or if we can take that intellectual property and leverage it with our core capabilities, and that's really how we look at those things. So David, do you want to add anything on established products?

David Simmons - Pfizer Inc. - President, GM Emerging Markets & Established Products

Yes, I'll just add that we've learned a lot in the last two years from our activities in established products, and we're very optimistic and bullish about the future potential in both developed and emerging markets in this regard. We're very early in our evolution in this business, but we're bolstered by the progress we've made to date. So we remain optimistic.

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

And then on the business development, I think the way to think about this, Chris, is although we never say never, to Ian's point, we'll be focusing on deals that are like the deals we've been doing recently.

So if you say, what are some of the recent deals, deals like Teuto in Brazil, Biocon, and King pharmaceuticals. Deals of those sizes will be the kinds of deals that we'll be looking at on a going-forward basis. As Ian said, to complement our existing businesses, so that when you put them together, one plus one equals more than two.

Operator

David Risinger, Morgan Stanley.

David Risinger - Morgan Stanley - Analyst

I have a couple of questions. First, with respect to your business portfolio review, Ian, are you primarily evaluating the nonpharma businesses or are you evaluating the core Pharma/Bio operations to consider, for example, splitting up primary and established products from specialty and oncology?

And then, second, I just wanted to ask about the JAK data. You had JAK data presented in November of last year. There were some mixed messages at ACR on elevated liver enzymes and whether they returned to normal after stopping therapy. I was hoping that you might be able to quantify what was observed and defined normal, and then, also, when we will see the next key studies in 2011. Thank you.

Ian Read - Pfizer Inc. - CEO

Thank you, David. I'll answer the first question and asked Geno to answer the JAK questions.

On the portfolio, my point of view is that there are no sacred cows in this portfolio. I'm not driven by size of the business and I'm not driven by diversity, per se. I want to look at all these businesses from the point of view of how do we move shareholder return.

And I need to take 2011, I think, to do that, to look at it from the point of view of the capital we need to continue to grow those businesses and how they will be positioned against their key competitors if we continue to grow them. And we'll take those decisions in 2011, and I think that we'll try and set the sort of portfolio shape for the foreseeable future by the end of 2011. With that, David? Geno, sorry.

Geno Germano - Pfizer Inc. - President, GM Specialty Care & Oncology

David, just to respond to the question about the JAK-3, the data that we presented last year at ACR, we showed the liver enzyme elevation data. There were relatively few liver enzyme elevation events. They tended to occur at a similar rate across each of the treatment groups and placebo groups, so there was no statistically significant difference between the groups, and importantly, there was no evidence of any liver damage in any patient, whether a placebo-based patient or an active patient. So, we're fairly confident in the data that we've seen so far with regard to liver enzymes.

And with regard to next presentation, the data, we're going to see several trials read out in the first half of this year, and we will look for opportunities to present the data as soon as possible, potentially as early as the EULAR meeting around the middle of the year, and then at ACR later this year.



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Operator

Catherine Arnold, Credit Suisse.

Catherine Arnold - Credit Suisse - Analyst

I had two questions. One is I wanted to ask you about your R&D spend reduction. Obviously, you gave us a lot of examples of where the cuts are coming from, but if you step back, if you could comment on the extent to which this is a change in organizational philosophy, as far as spending this big pot of money, versus the extent to which the Wyeth integration identified additional costs.

And my second question is, to what extent, if any, does today's modified guidance have an impact on King? In other words, if you closed King and you find some extra costs, would that be upside to what you said today or have you already considered any change in your guidance on King?

Ian Read - Pfizer Inc. - CEO

Thanks, Catherine. On the -- I'll answer the R&D, and then maybe I'll ask Frank to answer the questions on King.

So, look, I think on the research question, I would look at it as this is -- for me, the most fundamental question that Pfizer has to fix is our innovative core. And this is the start of fixing that in a way that will give us consistent productivity in our innovation.

So, the productivity is -- it's a denominator and a numerator, and we've worked on the denominator by taking out expenses where we think those expenses were in high-risk areas with low return or we didn't have core capabilities or where we felt that those type of activities could be better done by third parties and weren't needed to be kept inside Pfizer. So I see those reductions as being reductions that do not lower our ability to be innovative. In fact, it simplifies organization, focuses our organization in key areas, and allows our organization to focus on being productive.

Now, on the output side, it is a continuous change, or a change in our culture in research that I will be working with Mikael Dolsten over the next couple of years, and probably, I think, one of the most important activities that he and I will take -- undertake together is to create the sense inside these RU units, these research units, of ownership and an entrepreneurial sense of owning the money and owning the results. And I believe that will represent a transformation in our R&D productivity, and certainly when you couple that with the integration between what the RUs and the research area have to do to meet the business needs and the business sets that with the RUs.

So, I think we have an integrated system that's going to move our culture and give us a sense of a results-oriented culture in research.

With that, I'll pass it over to Frank.

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

Catherine, on King, just to refresh, with King we get a branded pharmaceutical business that very much complements and solidifies our primary-care pain portfolio, we get an animal health business that's in the feed additive business that complements our animal health business, and we get the Meridian business, which is autoinjector device-driven and included the EpiPen business.



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When we announced King, we also talked about the cost synergies we estimated that were part of that. All of the assumptions around King from a topline perspective, cost structure, then to the bottom line have already been incorporated into our 2011 guidance and our 2012 target.

Ian Read - Pfizer Inc. - CEO

So, Mikael, would you like to -- I know you're on the line. Would you like to add some comments on the research area, perhaps talk about the three buckets that you see it in?

Mikael Dolsten - Pfizer Inc. - President Worldwide Research & Development

Yes, thank you. You know, I feel we have really taken a step to integrate scientific business and financial consideration into an accelerated R&D strategy.

As Ian alluded to, we have a sharpened focus in areas where we can win. And we exited areas where we would dilute our efforts because they are high risk and lower productivity. These changes allow us to align our footprint much more optimal with a major biomedical house where we will be a leading player across the globe, like you've heard Cambridge, MA and UK, La Jolla, San Francisco, New York, and also in Shanghai.

We will increase externalization and outsourcing in areas that don't drive competitive advantage, and that will provide us with more financial flexibility. We have laser focus in delivering our promising late-stage pipeline that Ian alluded to while we build a sustainable innovation engine to refill our pipeline. I'm very confident that the changes will provide a high return on investment for R&D and differentiated, exciting products for patients worldwide.

Operator

Jami Rubin, Goldman Sachs.

Jami Rubin - Goldman Sachs - Analyst

Ian, I just wanted some clarification. You said something in your prepared remarks that confused me. You said that the whole is greater than the sum of parts, and based on our calculations, the whole is trading or priced right now well below the sum of parts. So, if you could provide clarification, and as you make decisions about the right composition of businesses, are you considering what these businesses might be worth as separate entities or as the part?

And then, if you do decide to spin those businesses, whether they are non-core or core, such as what I would consider the generics businesses, would you use those proceeds to return to shareholders? And on that topic, do you view share repurchases as providing intrinsic value to shareholders and are you willing to use it to substantially increase earnings per share? Thanks.

Ian Read - Pfizer Inc. - CEO

Thanks, Jami. I think there were three questions there. So, on the portfolio, I think the comment I made was that I believe that the whole has to be more than the sum of the parts, and that I'm focused on ensuring that it is.

We will review all businesses from the point of view of what capital they require to be successful growing businesses, and what are the alternative uses between those being used for the capital, and are the businesses better off in Pfizer or outside of Pfizer from the point of view of returning value to shareholders. And regarding what we would do if we were to generate cash from



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those transactions, we will apply it in the best way to improve return to shareholders, if we do that. And -- was there a third question?

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

It was, how do we view buybacks?

Ian Read - Pfizer Inc. - CEO

Look, I view buybacks as one of the ways we return value to shareholders, and certainly you need to look at that in the context of where you are in the moment, where the dividend yield is, where the debt is, what the alternative uses of the cash are, and, you know, we take those decisions on an ongoing basis to focus on maximizing return. Frank, do you want to add something?

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

Yes. And giving prevailing market conditions, we view buybacks as an attractive investment opportunity and a prudent use of our capital. So, we'll be very opportunistic as we buy back our shares, as market conditions warrant.

Operator

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

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

A couple of questions. Many of the 2012 guidance elements look decent, but the one area that kind of surprises me is SG&A, and I guess I could say the same thing with 2011 SG&A. In the setting of a big merger like Wyeth, I would've expected more reductions in this line item, and I'm just wondering if you can describe in more detail what's keeping it on the flatter side.

And then, second question is I think previously you've talked about getting back to a net cash position by 2012. If you said that again and I missed it, I'm sorry, but are you still committed to that target or might you leave more debt on the books to do things like share buybacks?

Ian Read - Pfizer Inc. - CEO

Thank you, Tim. I'll try and take a stab at the SG&A, and then let Frank talk about the net cash position.

So, it's -- we look at SG&A very carefully. We look at it from bottom up through the point of view of what do the brands need to continue to grow or to give a return that's acceptable as we spend against those brands. We look at it in the context of what we need to do to compete in emerging markets, which is not a trivial exercise as we go from 2,000 to 3,000 to 4,000 reps in China, as we invest in our brands and these opportunities, and we look at it from a topside point of view as to how does that compare with the competitors in the marketplace, and we do it by country by country and we do it overall.

So it's not -- I am very attentive to the amount of money we're spending in SG&A, and I believe with our modeling that we are doing that the SG&A percentage as a percentage of our sales is well within the industry norms as of 2012. And we will continue to look at that, and believe me, one of the frequent conversations we have as a leadership team is how do we build in continuous improvement and how do we build in go-to-market strategies to make sure that our SG&A is as efficient as possible. Frank?



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

And just to punctuate Ian's point on the SI&A, some of the areas we continue to invest in we are continuing to expand in emerging markets. There's the U.S. healthcare reform fee, which is now -- fee, which is reclassified to SI&A in 2011. We have planned investments for some of our new products like Prevnar 13 and some of our late-stage assets in the pipeline, and we will continue to invest in Lipitor in markets where it continues to have patent protection, like Europe and Japan. So these are just some of the examples.

But if you peel it down a layer, if you look at our field force in China, we added 1,000 reps during 2010 versus 2009. We are in 220 cities versus 177 cities, so that's the kind of investment that you see showing up in the SI&A line.

On the net cash, my answer to that is I don't view that as a target that we have to achieve. And if we see better uses of our capital, we'll use the capital and cash to basically get the best return for our shareholders. So, the short answer is no, I don't view that as a must deliver on target. I view that as, along the way, if we see better opportunities to deploy our capital and get a better return, that's what we're going to do.

Operator

John Boris, Citi Investment Research.

John Boris - Citi Investment Research - Analyst

Thanks for taking the questions, and congratulations on the results. Ian, first question for you. Over the next six to 12 months, obviously there's a lot going on, but can you maybe just outline for us what your top three priorities will be as you look at the business?

And then, second question, on your Diversified segment, is it possible just to get an update? I think your strategic review on the Capsugel business completes by the end of first quarter, where you are in that process, and then just your thoughts on the returns on nutritional and consumer and your thoughts for potentially divesting those assets. Thanks.

Ian Read - Pfizer Inc. - CEO

Yes, so top priorities, John -- thank you for the congratulations on the results.

The top priorities, I think I sort of described them, but I'll do it again is, one, is work with Mikael in research to really make sure that we are on track to turn around an innovative core. I think that's an essential medium- to long-term effort, and taking the expenses out and reshaping R&D while minimizing disruption is going to be -- it's going to be really important.

The second is to look at the capital allocation, to look at our businesses, and make a decision and a recommendation to the Board as to what I see as the structure in the businesses that Pfizer will progress in the future. So, those are two pretty big tasks, which we -- myself and the leadership team are going to be focused on, and I think that's about all I want to say on that, and I'll hand it over to Frank to make some comments on Diversified.

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

And on Capsugel, John, our strategic -- exploring strategic alternatives continues, and we continue to expect to complete that by the end of the first quarter.



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And then, on consumer and nutri returns, I think the way to think about that, and we've said this -- I've said this previously is they generate very good returns, but returns that aren't at the same level as, I'll call it, our Biopharmaceutical business. That said, all of those returns are blended into the guidance that we're providing for 2011 and 2012, which has operating margins in the high 30s to low 40s for 2012.

Ian Read - Pfizer Inc. - CEO

And you know, we see those businesses as strong businesses with growth. So, I want to evaluate them and give them, all of them, an opportunity to see how strong they can be for Pfizer.

Operator

Marc Goodman, UBS.

Marc Goodman - UBS - Analyst

A couple of questions. Ian, first of all, can you talk about your view of the generics business, whether it's in the United States or whether it's more the branded generic business overseas, and how aggressive you'd like to be in building that out?

And then, second, can we get a little more color on Prevnar in the quarter? Were there particular areas of strength? Were there any one-off tenders, and just things like that?

And then, third, last quarter you had mentioned there were some issues in Russia. Can you address what's going on there? And then, just more broadly, talk about what was the growth in the emerging markets because there was some type of readjustment with Korea, so I was curious what the underlying growth was for the full emerging markets. Thanks.

Ian Read - Pfizer Inc. - CEO

Okay, Marc. I'll make some general comments on generics, and ask David to pick up the other comments you asked on emerging markets, and I'll ask Geno to comment on Prevnar.

So, my view of generics is that we're in -- in fact, we're in three types of markets. We're in a pure generic market, which is mainly in the United States and Europe. We're in a branded generic market in most of the emerging markets, i.e., these are brands that have been established. They're established by physician detailing, and their value is both the loyalty of the physician and the loyalty of the patient and the quality that's behind those brands. And then, we're in a third segment, which is trade generics.

So each one of these needs to be identified differentially. We need to look at it from -- in different theaters of operation. There's a different attractiveness to the business in emerging markets, where it is more complementary to our branded and our core business. And we need to look at the capital that's required, and as I mentioned earlier, I think one of the core strategic decisions we had to take is how do we continue to fuel that business beyond the organic transfer of molecules in Pfizer's pipeline.

And that's -- we've opted up to now to do that via partnering and licensing, and we need to see if that's a viable strategy going forward or if we need to change our strategic point of view on that. We're very careful with that business, we're careful on net profitability. It's a different type of business from innovative core, and we look at it basically on operating margin. So, it contributes substantially on that level to cash flow and to profits.

So with that, I'd pass it over to David to add any comments on the growth rates in Russia and that perspective.



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David Simmons - Pfizer Inc. - President, GM Emerging Markets & Established Products

Thank you, Ian. I'll touch on one point on the generics market, and then go into the emerging markets' response. As Ian very, very clearly laid out the three types of generic market classifications, I would add that we believe we can drive growth across all three of those segments.

Obviously, the branded segment that's driven by physician decisions leverages Pfizer's core capabilities and commercial infrastructure the most, but even in commodity markets, there are spot opportunities for us to do business, as we've learned through utilizing our Greenstone apparatus in the U.S. and some of the Aurobindo licensing deals we've done. So we see growth opportunities across all three segments, is the point I'd make there.

On the emerging-markets growth question, on a like-for-like basis, including Wyeth and Pfizer Q4 sales in 2009, we grew 10% in Q4 2010. We're bullish on the opportunities to continue this trend. There will be quarter-to-quarter variability, so this will go up and down over time. But as a generalized trend, we do expect to achieve this type of growth.

Now, saying this, there's a key determinant in this, and this gets back to the generics part. We have to perform well in emerging markets, both in our innovative segment of our portfolio, which we're currently doing. All segments of our innovative portfolio are growing faster than the underlying market for those products, but at the same time, we have to develop our generics capabilities in these same markets.

Without a strong generics capability, we don't believe we can meet or exceed underlying market growth, so we've got to get both of those fronts right, and that's clearly what our plans of action are laying out to do.

Ian Read - Pfizer Inc. - CEO

Geno? Thank you, David.

Geno Germano - Pfizer Inc. - President, GM Specialty Care & Oncology

Yes, with regard to Prevnar, in the fourth quarter, we had a very good quarter. The majority of the upside on -- for the quarter came from the U.S., where we continued to capture catch-up patient opportunities and realize incremental price benefit from 2010 versus 2009 with now a 13-Valent product in the market, and also there was an uptick in replenishing inventories.

As you know, last year in the fourth quarter, we actually depleted inventories in anticipation of the 13-Valent launch, and so we see a quarter-over-quarter uptick in inventories in the fourth quarter.

Beyond the U.S., we saw continued growth in European markets, strong growth in Japan. We started to fulfill a tender in Turkey. We won back some regions in Canada that had gone to our competitor earlier in the year, but overall, just a good continued performance across the globe.

Ian Read - Pfizer Inc. - CEO

Frank, do you want to add some comments (multiple speakers)

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

Yes, let me give the overall growth rates for legacy Pfizer, and then I'll also just touch on Korea and Russia, because I think that was part of the question, too.



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So if you look at legacy Pfizer, for the quarter, emerging markets grew 3%. For the year, 5%. If you look at the BRIC-MT markets for the quarter, legacy Pfizer grew 5%. For the year, 9%.

And remember, we had some headwind relative to some pricing pressure in some of the markets, as well as the impact of certain LOEs. For example, Lipitor lost exclusivity in August and Viagra in June, both in Brazil. So, those are numbers that include the impact of those items.

Korea is already normalized in all of those numbers, so we basically made it all apples to apples, so it's in both the 2010 number and the 2009 number, so Korea is captured in those numbers.

And then, Russia. Russia, we had a tough quarter. If you look at the year-over-year numbers, the sales were down. That was really driven by some of the emerging-market pricing pressure that we talked about on the last earnings call.

Ian Read - Pfizer Inc. - CEO

Thank you, Frank.

Operator

Seamus Fernandez, Leerink Swann & Company.

Seamus Fernandez - Leerink Swann & Company - Analyst

Just a couple of quick questions. As we think about SG&A and the composition of SG&A, can you just discuss what percentage is currently in emerging markets and at what rate -- what inflationary rate you're assuming for those businesses?

It seems like you're undergoing price pressure and cuts in markets like Brazil and investing in SG&A in those markets, and I'm just kind of wondering what the trade-off is and how we should envision operating margins moving in the emerging markets going forward, given inflationary pressures that we're seeing in other markets.

And then, another question, just in terms of preserving the Lipitor brand at least during the period of generic exclusivity, what exactly -- what plans are you implementing? Is there a house brand strategy, sort of similar to what Merck executed with Zocor? Is that a tool in your quiver? And what other methods can you use to kind of preserve Pfizer's Lipitor sales?

And then, just as a final question, would you envision -- as you look at the portfolio and the shutdown of certain discovery areas, would you envision spinning out smaller biotech-style companies, maybe partnering with investors on that front from some of your internally-developed assets? I seem to remember a very interesting CETP inhibitor. Two of your competitors are moving forward there. And Pfizer has one that I think that was developed by Pharmacia that certainly could be moved forward, but obviously there are plenty of other assets outside of that. Thanks.

Ian Read - Pfizer Inc. - CEO

Thank you, Seamus. Well, let me see if I can remember all of the questions.

On the portfolio issue, absolutely, if we decide to discontinue internal research, we'll be interested in partnering or out-licensing or looking for creative ways of generating value from those assets, including all the types of suggestions you made.



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On the SG&A, I'll make an initial comment, and then ask Frank to pick it up. I would say on the SG&A, we look at this market by market and competitive set by competitive set, so in Brazil, we'd be adjusting our SG&A to take into account the effects of either pricing or of patent expiration, and certainly in the competitive context of Brazil and in the sense it makes an appropriate return on investment. The same in China, the same in India, the same in Korea, the same in Turkey.

I would say that markets like Turkey and China, while there are -- we have pricing pressures, and Brazil as well. While we have pricing pressures, the flexibility, the relationship between demand and price is extremely elastic, so that price reductions are normally compensated by aggressive volume growths. This is certainly true in China where the pent-up demand in China is absolutely enormous for quality health care.

So, with that, I'll ask Frank to comment on any more issues on there, and then, on Lipitor, I just want to make a short comment on that. We are investing appropriately behind Lipitor as we move towards LOE. We have robust strategies to handle the peri- and post-LOE. Clearly, they are competitive in nature, and I really don't want to go into any more details on that. Frank, do you want to talk about?

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

Yes, I'll just punctuate a couple of the points that were made, that we really do look at how to invest the SI&A on a market-by-market basis. And there are clearly markets -- in particular, the BRIC-MT markets where I'd say we've been biasing and increasing our overall investment because of the opportunities that exist, and I mentioned China, which is one of the areas where we've clearly been increasing our investment.

You mentioned margins, and the way to think about emerging-market margins is the gross margins will be lower than, I'll call it, our kind of traditional branded pharmaceutical margins, but those revenues also have lower expenses, and so the key there is operating margins, which are very, very consistent with our overall business and factored into our 2012 targets.

Ian Read - Pfizer Inc. - CEO

Yes, and on the SG&A, just to complete that, I mean, I don't think necessarily it's totally visible to the Street that we have been aggressively shifting resources out of the United States as we face LOEs, as the marketplace changes, as we adapt the way we go to market in the U.S. to more of a group practice, less individual calls and resources.

I mean, I think our U.S. total field force over the last seven years or so have probably gone down by 50%. Similar numbers in Europe, but that's not quite as dramatic as there, and we've reinvested in emerging markets. So, this is a continually ongoing review we do where we place our resources. Chuck?

Chuck Triano - Pfizer Inc. - SVP IR

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

Operator

Steve Scala, Cowen and Company.

Steve Scala - Cowen and Company - Analyst

A couple of questions. First, regarding the 2012 revenue guidance, how much of the \$2 billion reduction is due to eliminating future business development transactions and how much is attributable to market conditions? What market conditions are you



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specifically referring to in the release? And I assume it is still fully possible that the previously-contemplated business development transactions come through. So there's now upside opportunity in your 2012 revenue guidance, and I'm wondering if you agree with that.

And then, the second question is, is your JAK-1/3 product still on track to be filed in the second half of 2012, or might it be earlier? And do you believe the RA market is elastic such that a lower JAK price will significantly increase units sold or is priced less relevant to where it's used, in your opinion?

Ian Read - Pfizer Inc. - CEO

So on the -- thank you. On the JAK, we're finishing the trials toward the mid part of the year, and we will file as soon as we have the filing ready.

The pricing elasticity, I think most markets have certain elasticity. I think how that product is priced depends on the ultimate profile and the value it's delivering to patients and payers, and we'll take that decision as the profile develops.

With that, I would pass it over to Frank for any other comments.

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

So Steve, let me just run the numbers on the 2012 targets. The previous target was 65.2 to 67.7. We took it down to 63 to 65.5, so 2.2 billion reduction lower end and top end of the range, which was the 2 billion that you mentioned. Most of that comes from the removal of the future business development. The majority of that reduction comes from future business development.

So to your point about is there upside to that, to the extent that we did new, future, meaningful business development, that would not be in the number, and then we would adjust the targets upward for that kind of a transaction.

Chuck Triano - Pfizer Inc. - SVP IR

Thank you, everybody, for your time.

Ian Read - Pfizer Inc. - CEO

Thank you.

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

Thanks.

Operator

Ladies and gentlemen, this concludes today's conference. Thank you for participating. You may now disconnect.



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