

FINAL TRANSCRIPT

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PFE - Q1 2011 Pfizer Inc Earnings Conference Call

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PRESENTATION

Operator

Good day everyone and welcome to Pfizer's first-quarter 2011 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

Thank you, operator. Good morning and thank you for joining us today to review Pfizer's first-quarter 2011 performance. I am 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, General Counsel and Business Unit Lead for Nutritionals; and David Simmons, President and General Manager of Emerging Markets and Established Products.

The slides that will be presented on this call can be viewed on our homepage, Pfizer.com, by clicking on the link for Pfizer quarterly corporate performance first quarter 2011, 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. Factors that could cause the actual results to differ are discussed in Pfizer's 2010 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, May 3, 2011. These reports are available on our website at Pfizer.com in the Investors SEC filing section.

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

Ian Read - Pfizer Inc. - President, CEO

Thank you, Chuck. Good morning everyone. During my remarks this morning I will briefly recap the highlights from the quarter, speak to the progress we are making in executing our R&D strategy, provide updates regarding our late stage product portfolio and capital allocation initiatives. And I will close with an update on the business portfolio review work we have underway.

Our year is off to a good start. Our results were favorably impacted by revenue growth from several key products, growth in Emerging Markets, the addition of legacy King products, and the benefits from cost reduction initiatives, among other things.

At the same time, revenues were also negatively impacted by the loss of exclusivity of several products in the US and other geographies. Frank will take you through the details of the quarter, but here are a few of the noteworthy highlights.

We saw strong growth in the Prevnar franchise, Enbrel, Zyvox notably in the US and Japan. We saw growth from several other products, including Lyrica, Spiriva, and Celebrex, in key international markets. We had 8% operational growth in the Biopharmaceutical Emerging Markets business, including 10% operational growth in the BRIC-MT countries. This was highlighted by strong growth in China, India and Turkey.

Sales were impacted by large vaccine sales in the first quarter of 2010. Our overall global innovative core of patent-protected Biopharmaceutical products had operational growth in the mid-single digits.

Within our Established Products business, if we exclude revenue additions to the business unit from off-patent Wyeth and King products, as well as LOE transfers from the other business units since the beginning of 2009, we saw 7% growth. This performance was driven by both the legacy Pfizer Established Products in the unit as of 2009, and those products added for the portfolio expansion strategy.



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This is a good measure of the progress we have made since creating this business unit in 2008 with the goal of transforming what was a shrinking revenue base into a growth opportunity.

We continue to remain focused on efforts to reduce costs with our more disciplined and deeply rooted cost management effort. Operating savings were realized during the quarter due to the Wyeth integration, workforce reductions, actions taken with the R&D portfolio, as well as savings from our smaller physical footprint.

So far this year through April 30 we have returned approximately \$3.8 billion to our shareholders through dividends and share repurchases. In early April we announced an agreement to sell Capsugel business for \$2.375 billion in cash to KKR.

Looking ahead to the rest of the year, I believe our performance during the first quarter firmly positions us for executing our 2011 plan and achieving our financial guidance.

Now I will turn to an update on the progress we are making with our R&D strategy. I will begin by reiterating that improving the performance of our innovative core remains my top priority.

Since sharing with you our R&D strategy during the February earnings call, we have moved quickly to set in motion the actions needed to execute on our plans. Over the past three months we have spent time successfully aligning colleagues across the business with our strategy. We are taking important steps forward to provide greater budget authority and accountability to our disease area Chief Scientific Officers. Based on my interaction with our R&D team, I remain confident that we have Chief Scientific Officers who will deliver scientific excellence with an ROI mentality.

We have completed a review of our pre-proof of concept portfolio. As a result of this review we have elected to terminate 39 projects. We did this to create a greater focus on high potential projects in our areas of go-forward investment, which include neuroscience, cardiovascular metabolic, oncology, inflammation and vaccines. We believe these and other changes will lead to more effective prioritization of the portfolio based on key value and cross criteria.

We said we would establish a dedicated unit focused on pain and sensory disorders. To that end, we recently opened a new biotech research unit in Cambridge, UK, focused in this area. We have also started the preparations for shifting resources to strengthen our key biomedical hubs, including the Cambridge, Massachusetts, and New York City academic hub, and have begun recruiting key talent.

Clearly our work here is not going to be completed in one year. It is a multiyear endeavor, and I'm working closely with Mikael Dolsten and the R&D organization to accelerate.

As this work continues, we are also seeing progress in our late stage clinical portfolio that we anticipate will lead to new product opportunities. During this year we expect to present clinical data on assets from each of our innovative Biopharmaceutical businesses -- Primary Care, Specialty Care and Oncology. Specifically during 2011 we expect to report on several important programs in Phase 3 and some potential regulatory submissions and actions.

For Phase 3 we now have reported topline results for all five of the tofacitinib Phase 3 registrational studies, which we believe are forming a very encouraging clinical profile, and expect to present detailed data at medical conferences during this year.

We expect additional clinical data to be presented for Axitinib for renal cell carcinoma, Prevnar 13 for the prevention of pneumococcal disease in adults age 50 and older, and Eliquis, which is the new name for apixaban [redacted] for stroke prevention in patients with atrial fibrillation.

We continue to collect clinical data for crizotinib in non-small cell lung cancer patients and for (inaudible) psoriasis.



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Regarding the regulatory submissions crizotinib will remain on track with our rolling US submission which began in January. We look forward to acceptance of our application in the first half of this year. We continue to anticipate filings in the US and the EU by the end of 2011 for certain other oncology compounds as well as for tofacitinib and Eliquis.

In terms of anticipated regulatory decisions later this year the PDUFA date for Remoxy is currently set for June 23, 2011. At this time we are working to address a specific issue in the manufacturing section of the application, as well as to understanding potential implications for FDA's recent classwide REMS announcement for extended release opioids.

These issues could delay the timing of approval for the launch of Remoxy. We expect to receive actions later this year on our US and EU filings for Prevnar 13 in adults. In summary, each of these assets or compounds is really innovative and demonstrate our capabilities.

Next I will discuss our ongoing efforts around how we are allocating our capital to directly enhance shareholder value. Specifically as of April 30, we repurchased approximately \$2.2 billion of Pfizer shares this year. With our recent agreement to sell Capsugel to KKR for approximately \$2.4 billion in cash, we now expect to repurchase at least \$5 billion and up to \$7 billion of shares during 2011. This compares to our previously announced plan to repurchase approximately \$5 billion of shares in 2011.

We may also consider using a portion of the proceeds from the sale of Capsugel to fund other opportunistic business development transactions that are expected to meet or exceed the return on investment of share repurchases.

Regarding business development, we will continue to identify and pursue those bolt-on opportunities that leverage our core capabilities and then build on our portfolio strengths. We will seek and pursue the opportunities that we believe will return the highest value to our shareholders.

On our February earnings call I shared with you that we're looking at the long-term value creation potential of all our businesses. As part of the evaluation we will consider synergies between businesses, the opportunity costs associated with continued or increased investment in each business, as well as the potential returns from pursuing other strategic alternatives.

As I previously shared with you, we are undertaking a rigorous process which we expect to complete during the second half of 2011. Following the completion of this process we will be in a position to make a set of decisions and determine the appropriate next steps based on those decisions.

In summary, with a solid quarter behind us I believe we are making good progress in executing on our R&D strategy to improve the performance of our innovative core, building a strong pipeline with good scientific and commercial potential, continuing to take steps that will enhance shareholder return in the near term. And we are being diligent on how we make the decisions that we believe will result in long-term value creation that maximizes shareholder return.

Now I will turn it over to Frank to take you through the numbers.

Frank D'Amelio - Pfizer Inc. - CFO, EVP Business Operations

Thanks, Ian. Good day everyone. As always, the charts I am reviewing today are included in our webcast. It is important to note that because of our decision to sell the Capsugel business all revenues and expenses related to Capsugel for both the first quarter 2010 and the first quarter of 2011 are included in the single line item, discontinued operations net of tax, in our consolidated income statement for the first quarter of 2011 and the first quarter of 2010.

In addition, as a result of the completion of the King acquisition, legacy King operations are included in first-quarter 2011 results beginning January 31 of 2011, but are not included in the results for the first quarter of 2010.



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Now let's move on to the results. First-quarter 2011 reported revenues were \$16.5 billion, essentially flat year-over-year and favorably impacted by \$224 million or 1% due to the addition of legacy King products, \$97 million or 1% due to foreign exchange. First-quarter 2011 revenues were decreased by \$166 million or 1% due to US Health Care Reform.

The 12% year-over-year increase in reported diluted EPS was driven by growth for certain products, lower purchase accounting adjustments and acquisition-related costs associated with the Wyeth acquisition, lower first-quarter effective tax rate on reported income, primarily reflecting the extension of the US R&D tax credit, the change in the jurisdictional mix of earnings during the quarter, and the tax impact of charges related to certain legal matters. These were partially offset by loss of exclusivity of certain products, legal charges and costs incurred to improve overall R&D productivity.

First-quarter 2011 adjusted cost of sales increased 9% or \$261 million versus the prior-year quarter. It is important to note that adjusted cost of sales was negatively impacted by \$64 million due to foreign exchange, \$30 million due to the Puerto Rico excise tax, as well as Health Care Reform, which resulted in decreased revenues, but did not correspondingly decreased cost of sales, and a shift in product and business mix.

Consequently, adjusted cost of sales as a percentage of revenue increased year-over-year from 17.1% to 18.7%. However, excluding the negative impact of foreign exchange, the Puerto Rico excise tax and Health Care Reform, adjusted cost of sales as a percentage of revenue was 18.1%.

Adjusted total cost increased 3% to \$9.6 billion, driven by a shift in product and business mix, the addition of legacy King operations, which had an impact of \$160 million, the unfavorable impact of foreign exchange of \$101 million, the quarterly component of the annual fee required under US Health Care Reform legislation, which had a negative impact of \$69 million, and the previously mentioned impact of the Puerto Rico excise tax. These were partially offset by savings from our cost reduction initiatives.

Excluding the impact of foreign exchange, adjusted total cost increased only 2% year-over-year. Finally, adjusted diluted EPS was \$0.60 per share, flat year-over-year and driven primarily by growth in certain products, a lower effective tax rate on adjusted income and lower R&D expenses, offset by a shift in product and business mix, the loss of exclusivity of certain products, and the impact of US Health Care Reform.

In the first quarter 2011 foreign exchange positively impacted revenues by \$97 million and negatively impacted adjusted total cost by \$101 million. Remember, our Q1 international results include the months of December, January and February, and over this timeframe the euro to the dollar actually worked against us on a year-over-year basis. All in, foreign exchange had essentially no impact on first-quarter adjusted diluted EPS.

Primary Care unit revenues of \$5.4 billion decreased 7% year-over-year, driven by growth in Lyrica, Spiriva, Pristiq and Celebrex and certain other patent protected products in key international markets, as well as the addition of legacy King products. These were more than offset by the loss of exclusivity of Lipitor in Spain and Canada, and Aricept in the US, all in 2010, which decreased Primary Care revenues by \$590 million or 10% this quarter.

The 12% increase in Specialty Care unit revenues was driven by the strong growth in the Plevnar franchise, Enbrel and Zyvox, notably in the US and Japan. Established Products unit revenues of \$2.4 billion decreased year-over-year by 16% operationally, primarily due to the loss of exclusivity of Effexor, Protonix and Zosyn/Tazocin, and the resulting increased competition facing these brands, which was partially offset by the addition of legacy King products.

The 8% operational growth in Biopharmaceutical Emerging Markets revenue was due to both innovative products, including Enbrel, Lyrica, Sutent and Vfend, as well as Established Products.

Oncology unit revenues decreased 13% operationally, primarily due to the transfer of Aromasin's US business to Established Products in 2011 as a result of its loss of exclusivity in April of 2011.



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Animal Health grew 15% operationally, of which 6% or \$50 million was due to legacy King products, and the remainder due to strong global performance. And Consumer Healthcare grew 11% operationally, driven primarily by higher sales of Robitussin and Advil cough and sinus because of a more severe cold and flu season, particularly in the US market.

First-quarter 2011 revenues generated from both Biopharmaceutical and other businesses in Emerging Markets increased 11% year-over-year, and Biopharmaceutical revenues grew 8% operationally.

It is important to note that over the same period Brazil, Russia, India, China, Mexico and Turkey contributed a combined 58% to the overall growth in Emerging Markets.

Revenues from the Biopharmaceutical businesses grew 10% operationally in these BRIC-MT markets to approximately \$1 billion. Revenues from Established Products in Emerging Markets increased 6% operationally to approximately \$900 million. And Established Products revenues in the BRIC-MT markets increased 13% to \$450 million.

Finally, worldwide revenues generated by sales of Established Products, which include revenues from the Established Products business unit and revenues from Established Products generated in Emerging Markets, totaled \$3.3 billion in the first quarter.

We are reaffirming all elements of our 2011 financial guidance. As a reminder, on April 4 we updated our previous 2011 reported revenue guidance to \$65.2 billion to \$67.2 billion from \$66 billion to \$68 billion to reflect the pending sale of Capsugel.

We are also reaffirming our 2012 financial targets, given our continued confidence in the business. Again, we updated our previous 2012 reported revenue target range to \$62.2 billion to \$64.7 billion from \$63 billion to \$65.5 billion due to the pending sale of Capsugel.

So moving on to key takeaways. We continued to deliver strong operational performance. We are affirming all elements of our 2011 financial guidance and 2012 financial targets. We expect to complete our business portfolio review during the second half of 2011. We anticipate presenting data and submitting regulatory submissions for several of our late stage pipeline compounds during 2011. And we continue to expect to repurchase \$5 billion to \$7 billion of common stock during 2011.

We anticipate using approximately \$2 billion of the after-tax proceeds from the pending sale of Capsugel for these repurchases and/or for business development. To date in 2011, we have repurchased approximately \$2.2 billion or 110.5 million shares of our common stock, including repurchases made in the second quarter.

Now I will turn it back to Chuck.

Chuck Triano - Pfizer Inc. - SVP IR

Thanks, Frank. At this point, operator, if you could please poll for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Jami Rubin, Goldman Sachs.



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Jami Rubin - *Goldman Sachs - Analyst*

Ian, a couple of questions for you. Specifically, if you could outline for us what you're -- how you're thinking about strategic alternatives for Emerging Markets and Established Products?

And, secondly, if you could also share with us if you have narrowed your options regarding strategic alternatives for your diversified businesses?

Then, thirdly, just so that you could clarify, what your plans will be assuming you do spin or sell some of these businesses, what you will do with the cash proceeds? Thanks.

Ian Read - *Pfizer Inc. - President, CEO*

So let's take perhaps in reverse order. I think we said that proceeds -- if we do spin proceeds -- the case to beat would be share repurchase. So I think that is -- we have firmly drawn a line in the sand there.

You asked then for the -- look at the -- how I see looking at the EP and Emerging Markets strategical alternatives. The EP business is made up of mature markets in the United States and in Europe and then the Emerging Markets. In mature markets it is really a low-cost, and to a certain extent, a price game. And in the Emerging Markets it continues to be promotion and field force and traditional marketing.

So I think if we look at the strategic intersections, it is -- the most interesting question is in the Emerging Markets, and the extent that the Established Products are part of the core, are they linked to the infrastructure, are they linked to overall presence in the marketplace, and how would those businesses be operated separately or do they require different capabilities? So those are the sort of strategic questions we are looking at as we look at those two -- as those two options.

Then you asked me if I have narrowed my alternatives. We are still reviewing all of our alternatives on the businesses outside of the core. We intend to take the second half to go through that in a thorough way. As I said in my opening remarks, expect to start making some announcements during the second half.

I don't think we see it as a big bang. I don't foresee at some point second-half suddenly coming out with a detailed master plan. But certainly we will lay out decisions we have taken and decisions we haven't and the whys and analysis and give a clearer path forward.

Operator

Catherine Arnold, Credit Suisse.

Catherine Arnold - *Credit Suisse - Analyst*

I wanted to ask Ian a big picture question, and then I have a question on the Nutritionals business. If you step back, Ian, I know that you have talked a lot about how you are evaluating each particular business on its own and what to do with it, but clearly in the bigger picture I wonder if you can directionally just address what type of growth profile that you're trying to create for the Pfizer business ultimately? And thinking about this strategic exercise that you're going through, are we talking about a company that is going to be growing mid single digits, mid to high single digits? Anything you can directionally say as to your aspirations longer term would be helpful.

Then on the Nutritionals business it seemed like the growth was a little weaker this quarter. I wondered if you could give us some color on that?



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Ian Read - Pfizer Inc. - President, CEO

Okay, I will address the first question, and then ask perhaps Frank and Amy to add something on the second. So when we look at post 2012 we will continue to see a series of LOEs that will affect our growth rate, yet we will be launching some really innovative products into that marketplace post 2012.

So I conceptualize the Company, if you put to one side the diversified businesses, just in the way you describe what is happening, as a pharmaceutical business that has an exciting inner core of launching new innovative products. And then a set of more established assets that will -- some of those shall be suffering LOEs.

So I think the key question for the investors is how exciting is the innovative core? How exciting and what is the penetration of those newly launched products? And what will we do with the cash flows from those more mature products, and to what extent can those cash flows be used to produce earnings growth? That is -- without getting into any decisions about how we see the final shape of the Company or how we see it being structured or managed, I think those are the two big strategic themes in the Company going forward.

Frank, do you want to take the (multiple speakers).

Frank D'Amelio - Pfizer Inc. - CFO, EVP Business Operations

So, Catherine, let me just run the numbers and then I will answer what took place. Nutri sales for the quarter were about \$470 million. On a reported basis they were up low single digits, on an operational basis they were flat when you remove foreign exchange.

What is happening is last-quarter's results, so Q1 2010, actually had some favorable one-time items that impacted revenues that did not take place this year. So that is major point 1.

Major point two is we will have some new products for the Nutri business this year that weren't available yet in Q1, so we didn't get the benefit of those new products. So when you look at the numbers and then what happened, those two reasons are really the driver of the Q1 revenue being essentially flat on an operational basis year-over-year.

Ian Read - Pfizer Inc. - President, CEO

Okay, thanks, Frank. I think that was a pretty complete answer, so we will move on to the next question.

Operator

Tony Butler, Barclays.

Tony Butler - Barclays - Analyst

Two questions, the first has two parts, it is on Prevnar. Prevnar 13 sequential growth remains extraordinarily strong in the US. Can you comment as to the number of previously vaccinated Prevnar 7 infants who are coming back for a 13 boost relative to the overall de novo vaccinees; that is, infants that have not had a vaccination and then therefore are getting 13?

Part B of that question is, can you comment internationally on maybe new tenders that you won in the quarter or those that may be coming up?



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Then the second question involves manufacturing. As the LOE for Lipitor or atorvastatin looms in the near future, the question is, do you continue to operate the manufacturing process at full capacity, given you will be supplying Cobalt or Watson product for volume sale, or do you actually ratchet that back? Any color you could provide will be very helpful. Thanks.

Ian Read - Pfizer Inc. - President, CEO

Geno, do you want to take the Plevnar question?

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

Sure, let me talk about first the catch-up for Plevnar 13 in the US. The catch-up program has been a strong contributor to our growth, both in 2010 and continuing into 2011. In the first quarter about \$90 million of our revenues were associated with catch-up sales. As time goes by, the additional revenues from catch-up will diminish as we continue to complete that program, but it should be a continued strong contributor for the remainder of this year.

Then in terms of new tenders, we are in a pretty solid position with most of our major developed markets right now. We are seeing strong growth of actually the 7-valent in Japan, with now new funding -- government funding available there, and that is driving some significant growth in that country. We have signed a two-year contract in Mexico recently, and a number of other smaller markets in the Emerging Markets.

Ian Read - Pfizer Inc. - President, CEO

Thank you, Geno.

Frank D'Amelio - Pfizer Inc. - CFO, EVP Business Operations

Then on the manufacturing question, I think I will start by saying clearly once Lipitor loses LOE in the US, we will be competing vigorously for those volumes, not only in the US, but globally as it loses LOE in different countries. And from a manufacturing perspective, we clearly made assumptions around demand forecast and factored those into the manufacturing load. So that is the way we think about it.

Ian Read - Pfizer Inc. - President, CEO

Thank you, Frank.

Operator

Tim Anderson, Sanford Bernstein.

Tim Anderson - Sanford Bernstein - Analyst

A couple of questions. A year and a half into the merger with Wyeth, SG&A isn't exactly going down. I know you've talked about a couple of things keeping spending higher. But in 2011 it looks like it is probably going to be flat. If I look at the midpoint of your 2012 SG&A guidance versus the midpoint of the 2011 guidance, you are saying SG&A would be about \$1.5 billion lower next year. I'm wondering if you can categories where that \$1.5 billion in cost savings is going to come from exactly?



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Then second question is, if you decide that Established Products is not really part of the core or the future for Pfizer going forward, can that business really be carved out from the parent? I am just trying to figure out what that would look like and how it would work. Is there a potential buyer for that business? Is it capable of standing on its own as a separate publicly traded company or what exactly? Thank you.

Frank D'Amelio - Pfizer Inc. - CFO, EVP Business Operations

So, Tim, it is Frank. I will hit the SI&A question. Let me just start with the numbers for the quarter. So SI&A for the quarter, give or take about \$4.5 billion, up about 4% year-over-year from \$4.35 billion or so in the year-ago quarter.

Three things really driving that. So you've got the addition of King, you've got foreign exchange, and then you got Health Care Reform. Those were the -- that is the annual fee -- the Rx fee on your annual sales, which is a charge to SG&A.

All those -- those three items all-in are give or take about \$170 million, which more than basically offset what the increase was. So the point -- the slight difference is really from cost savings.

Now to run the numbers for the year, our guidance for the year on SG&A is about \$19.2 billion to \$20.2 billion is the range. Then those 2012 target is \$17.5 billion to \$18 billion. (Sic-see press release) Then to your point, if you take the midpoints, you are seeing a number that is coming down, give or take, about \$1.5 billion from 2011 to 2012.

I think the major categories there -- and let me frame this -- there is no one big ticket item. So there is not like some one big ticket item, it is really multiple areas of opportunity.

One of the things what we will have is we will have some products are going to be losing exclusivity. There will be some marketing and sales savings as a result of some of those products that are losing exclusivity.

Then there're lots of opportunities in the discretionary spend areas, whether it be things like consulting, non-employees, how we travel, so there is different buckets for each of those. We continue to generate savings from our integration efforts that will be generating part of those savings. So it is no one big ticket item, it is a bunch of different opportunity areas, all of which are being worked very aggressively inside the Company.

Ian Read - Pfizer Inc. - President, CEO

So, Tim, on your question on Established Products, all good questions or really good strategic questions that we are, in fact, dealing with and thinking through as we go through this year.

Certainly we have the critical mass in the size of our Established Products in the Emerging Markets for the business to be -- to be a standalone if we want it to be, or if we wanted to try and look at some sort of way of improving the capabilities of that organization to be more effective.

Our thinking on this is clearly how do we create more value for shareholders? What are the core capabilities needed to drive that business? If you actually look at our performance in Emerging Markets we do very well on our legacy brands. We do very well on our specialty. I would say the area that perhaps we struggle to compete against local companies is in the pure established brand products.

So there we are trying to step back and say, we have a strategy that is based on multisourcing from partners throughout the Emerging Markets. Is that strategy scalable? What is the best way of running that business? So all of the questions you asked are the questions we are trying to answer in the second half of the year.



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Operator

John Boris, Citi.

John Boris - Citi - Analyst

Congratulations on the results, and just have a couple of questions. Ian, I think you had indicated on the last conference call that you're going to be spending a fair amount of time with the R&D organization. What have you learned over the last quarter as you have spent time with R&D? And as you will look at R&D spend going forward is there any additional room for trimming of the R&D budget?

The second question on oncology. I think you're about to file certain oncology assets, can you maybe articulate whether Axitinib and Bosutinib are part of those filings?

And then the third question, especially in light, Ian, of your comments on bolt-on opportunities with the highest return for shareholders, can you help us understand whether you have the right business development process in place, especially in light of some of the things that we've seen with the King transaction, most notably the withdrawal of Embeda, Remoxy filing, etc., to ensure that these things can be ironed out before a transaction is actually hit on?

Ian Read - Pfizer Inc. - President, CEO

Thank you, John. On the R&D organization, I am very optimistic and enthusiastic about the organization. I think under Mikael's leadership we are getting an entrepreneurial sense into the organization with empowered, committed scientists that are focused on what I would call making unstoppable products. Shots in goal, not shots on goal. Very acutely aware of the resources being used, and the payback necessary to continue getting those resources.

On the spend, I think, we did a -- this R&D review that we did is part and parcel of the total strategic review we are doing with the other businesses. It is not different in any sense. So we arrived at an amount of funds we thought was appropriate to generate a return on investment of that innovative core. So I think the spend is right, and we will see as the performance comes through what the appropriate spend level is.

Geno, do you want to answer the oncology, and then I will come back to the bolt-on thing?

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

Sure, yes. It is exciting time with the oncology portfolio now. We are continuing to proceed with the rolling filing for [tasocitinib] in the US. And we have plans to file Axitinib in the US as well, and are discussing Bosutinib filings in both Europe and the United States.

Ian Read - Pfizer Inc. - President, CEO

On bolt-on acquisitions, I think we have a rigorous process that goes through identifies opportunities, and we have been very selective in where we have chosen to play. We have stepped back where necessary, and we have been very disciplined in the use of our funds.

So I am pleased with the King acquisition. We were pleased when we acquired it; we remain pleased. It provides significant immediate value creation. It is accretive. It adds to our scale of both PC business -- the Primary Care business in the EpiPen, the Flector Patch. And when Embeda and Remoxy will launch it will add to those capabilities.



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It adds to our Animal Health business and to our EP business. So I feel that we looked at the opportunities out there. This was a prudent acquisition. It was good value for money. We saw the risks in our due diligence on Embeda and potentially on Remoxy. And we took the decision based on the value we were acquiring at, so I feel that we have a very solid process.

Operator

Gregg Gilbert, Merrill Lynch.

Gregg Gilbert - *Merrill Lynch - Analyst*

A follow-up on the King assets. Can you give us some color on whether or whether Embeda will come back? And what is the manufacturing issue on Remoxy that you mentioned? And perhaps you can share your enthusiasm for that product in (inaudible) market?

My second question, Ian, is bigger picture. Do you think having a large portfolio of brands and generics, including some very mature ones, can help your new innovative product launches from a contracting point of view, or do you not really subscribe to the product breadth and contracting muscle sort of playbook? Thanks.

Ian Read - *Pfizer Inc. - President, CEO*

Well, so on Embeda, I can't give you an exact date. We are still working through the manufacturing issues on that. And on Remoxy and that class in general, I am very encouraged by the opportunities, given the REMS that just come out and the government's recognition of this -- how important this area is in abuse deterrent and safety. So I think as a strategic play it is very important for us, and will medium- to long-term will work out very well.

Now in regards the broad breadth of portfolio, I'm a lot more inclined to look at it asset by asset and look at the clinical value that the asset delivers to the society, to the payer, to governments around the world. And I don't really subscribe in today's marketplace to aggressive portfolios being an argument to get listings.

Operator

David Risinger, Morgan Stanley.

David Risinger - *Morgan Stanley - Analyst*

I have two questions for you, Ian. The first is if you could provide some more color on your comment about no big bang in terms of your strategic review outcome. Do you mean to say that you're going to be making decisions one by one on the non-core assets, and so that is why you said no big bang or are you backing off at all from your recent discussions that you're interested in significantly downsizing Pfizer?

Then, separately, with respect to the innovative core, I am hoping that you could provide little bit more color on how you plan to boost Pfizer's productivity in the face of variety of headwinds, including size working against innovation. I know that you're doing some small partnerships with academic institutions, but that seems to be a small fraction of the spending and time of your R&D organization. It doesn't seem to be that there is a large effort on individual academic partnerships.

Then, one follow-up on that is just maybe you could comment on improving your culture and being able to do so in the face of stepping down the R&D spending.



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Ian Read - Pfizer Inc. - President, CEO

Okay, so re the big bang. I remain -- we remain committed to looking at all our businesses, and I think we used the expression no sacred cows, and we remain intent upon that. What I was trying to convey there is that I don't expect in the second half to come forward with a fully mapped out announcement of dispositions and models that will direct the Company for the next 5 to 10 years.

That is the intent to get to that, and I think we would expect that over the rest of this year and some part of the beginning of 2012. But, certainly, we'll take decisions in the second half of 2011 as regard to how we want to create additional value for shareholders vis-a-vis what we do and how we treat the non-core businesses, and we will get back to you in the second half on that. But you should not interpret my comments in any way as being a reluctance to take the decisions necessary to drive the innovative core.

This is the culture and how we are going to return productivity in R&D. I think it comes down to a lot of what we have discussed on creating the Chief Scientific Officers for disease areas, empowering them, giving the right incentive structure, giving them control over their budgets. It comes down to the quality of leadership that Mikael Dolsten will exercise over research. The quality of the leaders that we will hire, and also utilize with the leaders we already have inside the organization.

We intend to look at a very strong incentive system to motivate entrepreneurial behavior in R&D. We are focusing on key disease areas where we believe we have capabilities and the depth of science to be successful.

So, fundamentally, we think we have sized our research, sized the effort, sized the resources and focused it so it will be productive. And we will continue to work on that. And while I think the model we have is going to be successful, we will continue to review it. And we have metrics internally that will measure that on a six-monthly, yearly basis. And we are very, very focused on getting this model right and getting productivity.

Operator

Chris Schott, JPMorgan.

Chris Schott - JPMorgan - Analyst

My first question is on the strategic review. It seems like several of the actions you could potentially consider if you were to break up pieces of your Pharma division could be associated with incremental near-term costs or dissynergies. At the same time it could lock a lot of shareholder value. How are you thinking about the trade-offs as you consider opportunities to reshape the Company?

The second question is on business development, obviously, doing this year a strategic review. Are your various business units free to pursue transactions, particularly the larger bolt-on deals, the multibillion-dollar type of acquisitions, or should we think about Pfizer pursuing a lower amount of activity as we go through this year? Thanks.

Ian Read - Pfizer Inc. - President, CEO

So, yes, your characterization of the way we are looking at the innovative business and the diversified businesses are that we look to see where there are natural synergies. Are there reasons why the businesses work well together and improve our market presence, or are they really stand-alone businesses where there are no dissynergies?



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We look at what we need to invest to maintain or improve market position. I am trying to assess what is the competitive set against where we are competing, and what is the probabilities of continued success in those businesses. All that comes down to our view of what is the net present value of the cash flows of those businesses, and what is their value inside Pfizer and what is their value outside Pfizer, and that will drive our decision-making on that.

As regards to business development, each business unit is working in partnership with central business development resources to identify opportunities and bring them forward. A key component is I want to have accountability. I want to have the BU leaders feeling responsible and accountable for the deals they propose. They will then take those deals and manage them, much in the way that the King deal is a good deal and the business units that proposed it are responsible for the results of that acquisition.

Operator

Marc Goodman, UBS.

Marc Goodman - UBS - Analyst

First question is on tofa. Can you just make sure we understand, has there been any more deaths in any of the other studies that you just reported out on? I think we are all pretty clear based on the press release you put out on the prior study, but there was two additional studies that were put out. So if you can comment on that, and maybe just overall how you view the response out there and what is happening with tofa?

Second question is just specifically can you talk about Russia, did it bounce back this quarter? I know it was a tough quarter last quarter. And then in China, how are things looking specifically there? What kind of growth did you see in the quarter, and are you still actively investing as fast as you can there?

Ian Read - Pfizer Inc. - President, CEO

So, Geno, would you want to take the tofa (multiple speakers). Then I will ask between Frank and David to answer the (multiple speakers).

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

Sure, yes, on tofa, just let me start by saying that the mortality rates that we have seen for tofa across all trials are within the expected range, the expected range for therapies -- biologic therapies used in this patient population.

So these are very large trials with patients with severe, moderate to severe disease and mortality does occur in these trials. So we will be reporting full results of all the trials at upcoming meetings, but you won't find anything that is unusual with regard to the mortality rates.

Ian Read - Pfizer Inc. - President, CEO

Thank you. David?



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

Regarding the question for Brazil and -- or for Russia and China, for Russia we did have a bounce back this quarter from what we had last year, and in the fourth quarter in particular. And there was -- underlying demand was very good. Specifically in China things are going very, very well in China. We are currently the number one ranked pharmaceutical company in the Chinese market, and our evolution index is greater than 100. We continue to have targeted investments in this area. We are very, very pleased with our progress and optimistic for future growth in China.

Operator

David Maris, CLSA Credit Agricole.

David Maris - CLSA Credit Agricole - Analyst

I would like to ask what an evolution index is, but I'm not going to waste my valuable question.

Ian Read - Pfizer Inc. - President, CEO

We will answer it anyway.

David Maris - CLSA Credit Agricole - Analyst

But, separately, Ian and Frank, your discussions -- maybe you could tell us with your discussions with chains and payers, what are their biggest challenges right now that have implications on Pfizer? In other words, what are your customers telling you?

Then separately, legislatively, is there anything in recent months or that you're concerned about or less concerned about the pricing environment in the US? And what do you think the implications are for the legislation to defund the state health insurance exchanges, are there any implications for the drug industry or for Pfizer?

Ian Read - Pfizer Inc. - President, CEO

So, evolution index, that is a measure of are you growing faster or slower than the market. So 100 would mean you're going at the market rate. Above 100 is you are growing faster than the market, below 100 you are growing less than the market. So David's comments about China that we have a positive evolution index means we are growing faster than the market rate to date.

The next question was on --

David Maris - CLSA Credit Agricole - Analyst

What customers are telling us.

Ian Read - Pfizer Inc. - President, CEO

Our customers -- our customers remain focused. In broad terms they remain focused on ensuring that they have a competitive offering to their customers in regards to the quality of their health care and the cost or price of their health care. So to the extent that we participate in doing that, where we add value to their other offerings than we are going to be successful.



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On the environment, really I think it is very much in flux. We are working along the assumptions of the law that we have in place today, and we will see how it develops as it develops.

Operator

Steve Scala, Cowen.

Steve Scala - Cowen - Analyst

The recent -- your tofa abstract cited four opportunistic infections, I'm wondering if you could tell us what the causative organisms were? And, secondly, regarding Pfizer's relationship with Codexis for Lipitor intermediates, do you have an exclusive supply of ATS-5 from Codexis? And can you explain, or would you explain the difference between the two intermediates ATS-5 and ATS-8, given the latter is not exclusive to Pfizer? Thank you.

Ian Read - Pfizer Inc. - President, CEO

So on the Lipitor supply, I have to confess I do not have those details. We will try, if we can, get back to you on a separate information on those. Those details are in the Lipitor and the Codexis relationship, I really do not have any information on that.

The first question was --.

Unidentified Company Representative

Related to the four opportunistic infections, I can't quote the pathogens. We will be presenting that data at EULAR in very short term.

Ian Read - Pfizer Inc. - President, CEO

To reiterate we see nothing --.

Unidentified Company Representative

Yes, we didn't see anything unusual, but I can't name the pathogens.

Ian Read - Pfizer Inc. - President, CEO

Sorry, Steve.

Chuck Triano - Pfizer Inc. - SVP IR

I think, operator, we have time for one more question.

Operator

Shamus Fernandez, Leerink Swann.



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Seamus Fernandez - *Leerink Swann - Analyst*

I am just wondering can you -- on the strategic review, Ian, when we think about the difficulties of breaking up the Company and the way that the debt was structured, is there anything that we should think about with regard to covenants for the debt and the ability to restructure the debt associated with some of the potential movements going forward? Thanks.

Ian Read - *Pfizer Inc. - President, CEO*

Thanks, I will ask Frank to answer that.

Frank D'Amelio - *Pfizer Inc. - CFO, EVP Business Operations*

I think, Shamus, the short answer is no. Given how the debt is structured, we don't see that handcuffing our ability to make the right operational and shareholder divisions relative to the business portfolio.

Chuck Triano - *Pfizer Inc. - SVP IR*

Thank you everybody for your time this morning, appreciate it.

Operator

Ladies and gentlemen, this concludes the Pfizer's first-quarter 2011 earnings conference call. You may now disconnect.

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