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PFE - Q1 2013 Pfizer Earnings Conference Call

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OVERVIEW:

PFE announced 1Q13 revenues of approx. \$13.5b and adjusted diluted EPS of \$0.54. Management lowered 2013 adjusted diluted EPS guidance to a range of \$2.14-2.24.



CORPORATE PARTICIPANTS

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Frank D'Amelio *Pfizer Inc - CFO*

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CONFERENCE CALL PARTICIPANTS

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Jami Rubin *Goldman Sachs - Analyst*

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PRESENTATION

Operator

Good day everyone, and welcome to Pfizer's first-quarter 2013 earnings conference call. Today's call is being recorded.

At this time, I would like to turn the call over to Mr. Chuck Triano, Senior Vice President of Investor Relations. Please go ahead, sir.

Chuck Triano - *Pfizer Inc - SVP, IR*

Thank you, operator. Good morning, and thank you for joining us today to review Pfizer's first-quarter 2013 performance. I'm joined today by our Chairman and CEO, Ian Read; Frank D'Amelio, our CFO; Olivier Brandicourt, President and General Manager of Emerging Markets and Established Products; 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 our Consumer Business; and John Young, President and General Manager of Primary Care.

The slides that we'll be presenting can be viewed on our homepage by clicking on the link for Pfizer quarterly corporate performance first quarter 2013, located in the investor presentations section in the lower right hand corner of this page. Before we start, I'd like to remind you that our discussions during the call will include forward-looking statements, and actual results could differ materially. The factors that could cause actual results to differ are discussed in Pfizer's 2012 annual report on Form 10-K, and in our reports on Forms 10-Q and 8-K. Discussions will also include certain financial measures that were not prepared in accordance with Generally Accepted Accounting Principles, and the 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.

As we outlined in our Earnings Release, the IPO of a 19.8% interest in Zoetis was completed on February 6 of this year. Thus, effective February 7, the earnings attributable to the divested portion of Zoetis are excluded from adjusted and reported net income and diluted EPS in both our first-quarter results and our full-year 2013 guidance. We still retain an 80.2% ownership interest, so all Zoetis revenues and expenses continue to be included in first-quarter results, as well as in the financial guidance for the full year.

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

Ian Read - Pfizer Inc - Chairman & CEO

Thank you, Chuck. I'll begin with some comments on the quarter. We've started the year continuing to create significant value for our shareholders. Specifically we completed a successful IPO of a minority interest in Zoetis and a related debt offering, and began returning those proceeds, as well as the proceeds from the sale of our Nutrition business to our shareholders through share repurchases. So far this year, we have repurchased approximately \$6.3 billion of our shares. In addition, our focus on rebuilding and strengthening our innovative core is yielding results. During the quarter, we launched some significant products. Most noteworthy were the launch of Eliquis in the US, UK, Germany, Denmark, and Japan, and the launch of Xeljanz in the US. In addition, we recently approved approval for Xeljanz in Japan and Russia.

Regarding Eliquis, the market introduction since the launch is in line with our expectations. We continue to work with our partner Bristol-Myers Squibb on securing broader commercial, medical, and hospital formulary access. We expect to gain broader access as the year progresses, as we seek to establish Eliquis as the leading novel oral anti-coagulant in the market over time. We are very confident in Eliquis' clinical profile and our ability to translate that into a leading market position, given the new prescriptions we are seeing.

Regarding Xeljanz, we're encouraged by the early indications or indicators we're seeing with the US launch. Prescribing by rheumatologists is trending higher, and we are seeing that repeat prescribing is also trending higher, which suggests once a physician prescribes Xeljanz, they generally increase prescribing.

Importantly, we are seeing use in post-methotrexate and post-TNF patients at similar rates. Our full promotional campaign launched in March, and we plan to introduce DTC advertising this summer. In addition, we recently submitted the supplementary NDA for Xeljanz that was accepted for review by the FDA to include supportive patient reported outcomes data in the label.

Last week, we announced receiving a negative opinion for Xeljanz by the Committee for Medicinal Products for Human Use in the EU. In the opinion letter to Pfizer, CHMP noted that tofacitinib is a new chemical treatment with a different mechanism of action to products already approved for the treatment of rheumatoid arthritis, and that in their opinion the safety and efficacy of tofacitinib is not properly or sufficiently demonstrated.

We disagree with their opinion, and are seeking a reexamination. While history would show their reversal of such an opinion is not common, we feel compelled to further address the risk/benefit issues raised by the rapporteurs through this process. We believe the risk/benefit profile of Xeljanz has been well characterized to date with approximately 5,000 patients across Phase II and Phase III trials in more than 40 countries resulting in 7,000 patient years of exposure. The original application submitted to the EU was based on the same pivotal efficacy and safety data package that was provided to regulatory agencies around the world, and that has resulted in approvals in the US, Japan, and Russia.



This recent development in the EU does not change the status of Xeljanz as an approved treatment option in these markets. It is also under review in several additional countries, and we anticipate decisions this year in a number of those markets.

Turning to our Oncology business, we launched Bosulif in the EU, and saw good and improving performance from both Xalkori and Inlyta across the markets where these products have launched. Within our pipeline, we have shown steady improvement in the quality of the compounds and in the rate of progress in advancing these compounds. Of particular note is the Breakthrough Therapy designation that the FDA recently granted to palbociclib, our innovative new investigational compound for patients suffering from breast cancer.

Yesterday we announced a worldwide collaboration agreement with Merck, except in Japan, for the development and commercialization of ertugliflozin, our investigational compound for the treatment of Type II diabetes. Phase III trials are expected to begin this year, which will examine both its use as monotherapy and in fixed dose combinations. We look forward to moving ahead with Merck in this area of significant unmet medical need.

And we have a robust vaccines portfolio that includes a vaccine for meningitis B for adolescents and young adults that is currently in Phase III. Earlier in the pipeline, we are working on prophylactic vaccines to reduce the risk of some of the most difficult hospital-acquired infections, such as staph aureus and c difficile, our next generation pneumococcal conjugated vaccine and therapeutic vaccines for smoking cessation and allergic respiratory diseases.

While we are seeing good momentum in our innovative core, our operating environment continues to be challenging, and at times volatile, due to ongoing pricing and macroeconomic issues. This quarter, our emerging markets revenue grew 6% operationally, but we were negatively impacted by certain events that included the timing of certain government purchases of Enbrel and the Prevnar franchise, and the transfer of some of our products to a joint venture in China with Hisun Pharmaceuticals. Let me note that we do expect that the second half of the year will be stronger for our emerging markets business, and on a full-year basis we continue expect it to deliver high single-digit operational revenue growth.

We also continue to demonstrate good fiscal discipline in managing our cost structure by continuing to align our costs with our revenue base. This quarter, we reduced our total adjusted cost of sales, SI&A expenses and R&D expenses by approximately 7% compared to a year ago. Overall, I believe our results demonstrate our continued financial flexibility in adapting to our current operating environment.

In a moment, Frank will provide you with more details on the quarter and what we expect for the full year. Before he does that, I want to point out that we expect to see data from several important clinical trials during the second half of this year. This includes CAPITA data for Prevnar 13, which if positive may result in broader recommendations for adult usage following review by key vaccine's technical committees like the ACIP.

We also are expecting data from two Phase III programs for dacomitinib towards the end of this year. These programs involve patients with advanced non-small cell lung cancer whose disease has progressed after prior treatment. Full data presentations are planned for a medical conference next year. And we're expecting data from Phase III studies of Xeljanz for the treatment of psoriasis by mid-year. If favorable, we expect to file early next year in the US and Japan for the Xeljanz psoriasis indication. Separately, we also anticipate beginning a Phase III psoriatic arthritis study for Xeljanz later this year. As you can see, depending on our clinical outcomes, Xeljanz has the potential to become a broad-based product franchise for our Specialty Care business.

Also later this year or early next, we will see the complete Phase II data for palbociclib for the treatment of breast cancer, and the associated assessment of progression-free survival and overall survival. We believe that palbociclib may represent an important potential treatment for this devastating disease, given the encouraging data we've already seen, and in February we began enrolling patients in a Phase III study evaluating palbociclib in combination with letrozole, for first line treatment of post-menopausal women with ER-positive HER2-negative advanced breast cancer. This represents 60% of cases among postmenopausal patients with advanced or metastatic breast cancer.

Regarding our options relative to our 80% interest in Zoetis, we have not yet made a final determination. We are actively assessing the best options to maximize value for Pfizer shareholders in an expedient and efficient manner. As we shared with you over the course of the last year, with the sale of the Nutrition business and the successful IPO of a minority interest in Zoetis, we are building two strong businesses, an innovative core and



a value core, each with distinct cost structures and operating drivers. We know it will take the next few years to fully realize the potential of each, and as each of these businesses progress, we will continue to evaluate how best to deliver their value to our shareholders.

In summary, throughout this year, we will continue to stay focused on building a substantial innovative core where we will use our capital in ways to deliver the greatest value to our shareholders. We will continue to manage our cost structure, we will press forward on our initiatives to help enhance our reputation with society, and we will focus on creating an ownership culture that helps drive results.

Now, I'll turn it over to Frank.

Frank D'Amelio - Pfizer Inc - CFO

Thanks, Ian. Good day, everyone. As always, the charts I'm reviewing today are included in our webcast. Before I begin, I want to remind everyone that adjusted and reported net income and diluted EPS in both our first-quarter 2013 results and our updated 2013 guidance reflect the IPO of a 19.8% interest in Zoetis, which we completed on February 6, 2013. We still retain an 80.2% ownership interest, so all Zoetis revenues and expenses continue to be included in our first-quarter results and in financial guidance for the full year. However, effective February 7, 2013, the earnings attributable to the divested portion of Zoetis are excluded from first-quarter adjusted and reported net income and diluted EPS in both our first-quarter results and our full-year 2013 guidance.

Now let's move on to the financials. First-quarter 2013 revenues of approximately \$13.5 billion decreased 9% year-over-year, reflecting a 1% negative impact from foreign exchange and an operational decline of approximately 8%, driven mainly by the loss of exclusivity of several key products in certain geographies, notably Lipitor in developed Europe during the second quarter of 2012 and Geodon in the US during the first quarter of 2012. The timing of government purchases of Enbrel and the Prevna franchise in certain emerging markets, and of Prevna 13 in the US, and the transfer of certain product rights to our joint venture in China with Hisun.

Adjusted diluted EPS of \$0.54 decreased 5%, primarily due to the previously mentioned decrease in revenues, which was partially offset by an aggregate operational decrease of 7% in adjusted cost of sales, adjusted SI&A expenses and adjusted R&D expenses, primarily resulting from cost reduction and productivity initiatives, a lower effective tax rate and fewer diluted weighted average shares outstanding, due to our ongoing share repurchase program. I want to point out that our solid performance during the first quarter was unfavorably impacted by approximately \$0.02 per share due to changes in foreign exchange rates versus the US dollar, including the devaluation of the Venezuelan bolivar since we first provided our full-year guidance in late January.

Reported diluted EPS was \$0.38 compared with \$0.24 in the year-ago quarter, and was favorably impacted by lower overall cost and lower certain other items, including non-acquisition-related restructuring costs and fewer shares outstanding, and unfavorably impacted primarily by the loss of exclusivity of certain products, as well as other factors impacting revenues previously mentioned.

During the first quarter, Biopharmaceutical volume growth of 10% in the BRIC-MT markets was primarily driven by strong growth in China, and partially offset by price reductions of 1% in these markets, resulting in operational revenue growth of 9%. If you exclude the portfolio of products whose rights were transferred to our joint venture in China with Hisun, our operational revenue growth would have been 8% in our Emerging Markets business, 14% in BRIC-MT countries, and 31% in China. In addition, foreign exchange negatively impacted BRIC-MT revenue by 1% in the first-quarter 2013.

Foreign exchange negatively impacted first quarter revenues by 1%, or \$118 million, and had a net positive impact of \$24 million in the aggregate on adjusted cost of sales, adjusted SI&A expenses, and adjusted R&D expenses. As a result, foreign exchange negatively impacted first-quarter adjusted diluted EPS by approximately \$0.01 compared to the year-ago quarter.

We are reducing our 2013 reported revenue guidance range by \$900 million, solely due -- solely to reflect the non-operational negative impact of the changes in foreign exchange rates versus the US dollar since mid-January. While most major currencies have worked against us since mid-January, approximately half of this unfavorable impact is attributable to the weakening of the Japanese yen versus the US dollar. I want to remind everyone



that Japan is our second largest market, and represented 10% of our total revenues in 2012. In addition, the devaluation of the Venezuelan bolivar accounts for approximately 20% of the unfavorable impact of foreign exchange since mid-January.

Now moving on to our 2013 financial guidance. I want to emphasize again that our guidance for this year reflects the completion of the IPO of a 19.8% interest in Zoetis and the resulting non-controlling interest. All Zoetis full-year revenues and expenses are included in our guidance, but the earnings attributable to the 19.8% divested portion are excluded from both adjusted and reported diluted EPS guidance beginning on February 7, 2013.

As I just mentioned, we've lowered the upper and lower ends of our reported revenue guidance range by \$900 million, or approximately 1.6%, due to foreign exchange movements since mid-January. We've lowered our adjusted diluted EPS range from \$2.20 to \$2.30 to \$2.14 to \$2.24 to reflect the aforementioned changes in foreign exchange rates and the completion of the Zoetis IPO, and we've lowered our reported diluted EPS range from \$1.50 to \$1.65 to \$1.44 to \$1.59 to reflect these same factors, as well as some other offsetting factors. Approximately \$0.04 of this EPS decrease in adjusted and reported diluted EPS guidance ranges is due to the non-operational, unfavorable impact of changes in foreign exchange rates from mid-January to mid-April on our full-year guidance, which includes the weakening of the Japanese yen and our basket of other currencies versus the US dollar, but excludes the \$0.02 negative impact from the devaluation of the Venezuelan bolivar, which we are absorbing.

Approximately \$0.02 of the decrease in the adjusted and diluted EPS guidance ranges is due to the elimination of the non-controlling interest of Zoetis. To be clear, excluding this \$0.02 non-operational impact related to the non-controlling interest of Zoetis, had foreign exchange rates remained constant, we would be reaffirming our initial full year 2013 revenue in reported and adjusted diluted EPS guidance.

Moving on to key takeaways. First-quarter results were unfavorably impacted by the loss of exclusivity of several products in various geographies, and the expected volatility in emerging markets. As we've previously stated, because of this volatility, we anticipate our performance in that business to fluctuate from quarter to quarter. That said, we continue to expect high single-digit operational revenue growth in emerging markets in 2013, with the majority of this growth occurring in second half of the year. We continue to mitigate the earnings impact of product LOEs with both expense discipline and share repurchases. We received approximately \$6 billion of proceeds from the successful completion of the IPO of a 19.8% interest in Zoetis and a related debt offering. We've updated our 2013 financial guidance to reflect the negative impact of foreign exchange rate changes since mid-January, and the completion of the Zoetis IPO, among other non-operational factors.

During the first quarter, we launched Xeljanz and Eliquis in the US, and Eliquis in several developed markets in the EU, as well as in Japan. We remain excited about the potential of our mid- to late-stage pipeline, and we continue to create shareholder value through prudent capital allocation. To date in 2013, we have repurchased approximately \$6.3 billion, or 227 million shares. And we have approximately \$5.5 billion of authorization remaining under the current repurchase program. I want to point out that since 2010, we have repurchased nearly 1.1 billion shares of our common stock. Finally, we remain committed to delivering attractive shareholder returns in 2013 and beyond.

With that, I'll turn it back to Chuck.

Chuck Triano - Pfizer Inc - SVP, IR

Great. Thanks for the review, Frank. With that operator, can we please poll for questions?

QUESTIONS AND ANSWERS

Operator

Yes, sir.

(Operator Instructions)



Your first question comes from Chris Schott of JP Morgan. Please go ahead.

Ian Read - *Pfizer Inc - Chairman & CEO*

Good morning, Chris.

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

Good morning, everybody. Just two for you guys.

First, Ian, you mentioned it's going to take several years for you to fully develop your innovative and value cores. As you consider how to best realize value from these divisions for your shareholders, should we think about the decision on that as something that could occur in the nearer term, or do we really have to wait a couple years to see how these businesses evolve before you'll have a better sense of the profiles of each?

My second question was on palbociclib. Just thoughts on what Breakthrough Designation means here, the potential of file with Phase II data, and can you talk a little bit about the early breast cancer opportunity, when we should expect to hear more about that?

Thank you very much.

Ian Read - *Pfizer Inc - Chairman & CEO*

Okay, thanks, Chris.

I'll deal with the two business, core businesses, and then I'll ask Geno to deal with the palbo question. I think what we're saying is that we believe there are two core businesses. We are going to -- we look at this year as a year, as a decision year on how to structure those, how to indicate to you, to give you further visibility, and then simply the work involved in order to have those businesses as entities with enough financial information to make decisions, when we're ready to make them would take two to three years, because of the complexity of separating out the businesses.

So, what we would like to do at some point in time, and we'll take that decision this year, is to start to operate more independently those businesses, give you more visibility as shareholders, and then assess what are the advantages and disadvantages of having these two core businesses housed in the same entity or not. And at that point, as we see that happen, and frankly as we see the innovative core's pipeline mature, and as we take steps to continue to strengthen value co's ability to have product growth inside certain segments of its product offering, that will inform our decision.

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

Okay. So Chris, just a couple comments on palbociclib. I think you're probably familiar with the Breakthrough Designation now. This a new designation that the FDA has to increase or intensify their focus on programs where early clinical signals are compelling for conditions that are serious and life-threatening, and certainly palbociclib falls into that category, and it was encouraging to see FDA give the designation to palbociclib recently. So we look forward to continued engagement with the FDA on the program. As you know, the Phase II trial is still ongoing. We're anticipating completion around the end of this year, or sometime in the second half.

It is an event-driven trial. So, in a way, the longer that it takes, it's possible that patients are actually surviving longer and without progression in the palbociclib arm, which could be a very good thing. So, we're just going to have to wait until we achieve the required number of events, and we'll report out as soon as we have results ready for disclosure.



With regard to the early stage trial, we're actually working on two additional Phase III trials now, one for earlier stage high risk patients, as well as for advanced recurrent patients, and our expectation is that we'll initiate those trials in the second half of this year, as well. So, we'll provide more color once we reach that point.

Chuck Triano - Pfizer Inc - SVP, IR

Thanks, Geno. Operator, next question please?

Operator

Your next question comes from Jami Rubin of Goldman Sachs.

Jami Rubin - Goldman Sachs - Analyst

Thank you, Frank. I have a question for you. I guess I'm confused about something related to the Zoetis IPO. Can you walk us through the dynamics of your 20% stake that you sold through the IPO, and how the \$6 billion in proceeds from that, which were being allocated to share repurchases, would not have allowed you to report accretion from your sale of Zoetis? Instead you're reporting \$0.02 of dilution.

So I'm just confused about that. I would just think with the IPO proceeds, and given your market cap, or rather your PE multiple, that this would have been pretty meaningfully accretive. And then secondly, can you talk about your current plans for the 80% Zoetis stake? I understand, as I said, that you haven't yet decided when or how, but if you could talk about maybe how you're thinking about allocating those proceeds as well?

Thanks.

Frank D'Amelio - Pfizer Inc - CFO

Okay. So, on the first question, let me walk through this in a couple of steps, Jami. So first, on the last earnings call, I mentioned that our current year guidance, the 2013 guidance, assumed mid-teens in the billions share buybacks. So that was already factored into the guidance. That mid-teens billions in buybacks made assumptions about the Nutri cash proceeds, as well as the Animal Health IPO and debt offering proceeds, point one.

Point two, remember, when we're buying back shares, we don't get the full year benefit of those shares from the EPS calculation in year. It's a weighted average calculation. So, the full year benefit of those buybacks will actually take place in 2014. Point three, if we were to do something with the second step on Zoetis, and you assume that there was a share reduction from that, it would clearly be when you netted it all out accretive.

The reason you're seeing that \$0.02 decrease in earnings today is simply a timing issue, is the way that I think about it. So hopefully that explains the steps relative to why you saw the \$0.02. It's really timing, that you're not getting the full year benefit of the shares we repurchased this year, and the fact that we had already planned for mid-teen billions in buybacks that we should taken into account Nutri and the first step on Animal Health.

In terms of current plans for Zoetis and our remaining 80.2%, a couple of comments. First, we haven't made any decisions to date. Second, we have several alternatives available to us per the IRS ruling, and we continue to monitor our market conditions. Third, there are no operational barriers that would prevent us from proceeding with a potential second step. And then lastly, our compass, our goal remains the same, which is to maximize after-tax return to our shareholders.

Chuck Triano - Pfizer Inc - SVP, IR

Thanks, Frank. Operator, next question please?

Operator

Your next question comes from Marc Goodman of UBS. Please go ahead.

Marc Goodman - *UBS - Analyst*

Yes. I was hoping you could talk about Xeljanz a little bit more, and what's going on behind the scenes in the US and the launch there, and how it's progressing, and talk about the reimbursement that you have now, and how that's going to change. And then second of all, on the Oncology products that you've launched, Xalkori and Inlyta, if you could just give us a little bit of an update there, Geno, and just how those are progressing, and what kind of patients have been already penetrated, and how much is left there? And then third, when is the staph vaccine trials going to read out? Thanks.

Ian Read - *Pfizer Inc - Chairman & CEO*

Okay, I'll ask, as you say, as you requested, Geno to answer the Xeljanz and any Oncology questions, and Mikael can give you some update on the staph read out.

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

Yes. I guess for Xeljanz in the US, we're pretty pleased with the way things are going right now. We're seeing a continued adoption of the drug, fairly broadly now across the rheumatology community. We have somewhere around 1200, 1300 physicians who have initiated patient trials, and about two-thirds of them are repeat prescribers. So we see this nice trend, week after week after week increase in number of physicians with experience. We know from our Phase III trials with the patient reported outcomes and the efficacy, that patients are likely to be very satisfied, and we're already hearing from some rheumatologists that they are hearing back from their patients that their early experience has been very favorable. So I think of it as a so far, so good situation.

As Ian mentioned in his opening comments, we really just kind of got off the tracks on our full launch in March with speaker programs, with sales representatives, with promotional materials in their hands, with additional medical support in the field, and in the middle of the summer, beginning of summer we expect to launch our DTC. So we're right where we need to be. We see the trajectory of our launch comparing favorably to other recent launches. We're a little ahead of most of the other products that have launched in this category. So again, we like what we see.

With regard to reimbursement, initially we had probably broader reimbursement support than we anticipated. Everyone just seemed to agree to pass through reimbursement. Over the last couple months, we've seen more managed care players doing their full assessments and making decisions on formulary placement, and we're getting the formulary placement we would expect. There will be prior authorization required for this medicine, just like there is for all of the medicines in the RA category. And so I think we have now formal reimbursement decisions made for lives totaling about 60 million, and continued.

There will be a continuation of evaluation by plans as we go into the summer. So again, that's looking okay, and then finally, just to reiterate another point that Ian made in his comments. What we're seeing in terms of patients is we're seeing about an even split in patients that are post-methotrexate and patients who are post-TNF. So we're getting both second line and third line patients in the early experience so far.

So that's Xeljanz. With regard to Xalkori and Inlyta, again, we're continuing to make progress in there. Inlyta in the first quarter, we did \$63 million in the quarter. We're seeing real good uptake in second line, which is the indicated position for that product. We have about 26% share in the second line. In Europe, where we launched later last year, we know about half the physicians now who treat patients with renal cell carcinoma have had an experience with Inlyta. So, the uptake there is on track. And in Japan, we've had a very robust uptake. It's actually the number one product for renal cell in Japan. So Inlyta is off to a good start. Good feedback on patient tolerability, which is what we expected the benefit to be. So again, so far so good there.



With Xalkori, we had a \$53 million first quarter, up about 20% from the last quarter, which is, again, good progress. ALK testing continues to improve. In the first quarter of this year, new guidelines were published for ALK testing, we think will be helpful in setting standards for who to test and how to get through the diagnostic in an expeditious manner. So we think that that can have a benefit. And we're actually seeing now, that we are getting healthier patients on Xalkori, a good duration of therapy. So all the indicators are on track with Xalkori as well, and maybe I'll hand it over to Mikael to comment on staph aureus.

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

Marc, thank you for your interest in our staph aureus vaccine. We are expecting data readout from our proof-of-concept study later this year. It's really a first-in-class vaccine which contains four components carefully selected to, on one hand, two of them allow immune-mediated clearance of bacteria, while the two others are selected to inhibit the growth of the bacteria, including proprietary antigens that we have identified. The vaccine is designed to act on antibiotic-resistant and antibiotic sensitive staph aureus, and we are quite enthusiastic about this potential new approach to deal with the threat of a difficult to treat staph aureus.

Ian Read - Pfizer Inc - Chairman & CEO

Thank you, Mikael.

Chuck Triano - Pfizer Inc - SVP, IR

Marc, I'd just add that Xeljanz sales in the quarter were \$11 million, and with that, operator, can we go to the next question?

Operator

Yes, the next question is from Gregg Gilbert of Banc of America. Please go ahead.

Gregg Gilbert - BofA Merrill Lynch - Analyst

Yes, thank you.

Quickly on the Merck deal, should we view this as a step in the direction of Pfizer wanting to have a full-fledged diabetes effort covering several classes of drugs, or just a way to share costs and risk for one product area? Secondly on capital deployment, your dividend yield is at the lower end of the major pharma average at this point, certainly due to strong stock performance, but your payout ratio is also somewhat lower than average. Was curious if you had any updated thoughts on the balance between dividends, buybacks and business development, or if not, when can we expect an update? And lastly, in the pain area, in light of the recent FDA actions on abuse deterrent opioids, I was hoping you could update us on your current thinking on Remoxy and the ALO product in the oxycodone space, as well as Embeda in the morphine space? It seems like there's quite an opportunity there to cannibalize generics and generate a lot of revenue if you can get Embeda back on track.

Thanks.

Ian Read - Pfizer Inc - Chairman & CEO

Thanks for your questions. A lot on your agenda.



On the Merck deal, we have a large effort in CV Med. We continue to do research in diabetes and in areas around those conditions. I think this was a great opportunity for us to partner with a product that could not be at a backbone of monotherapy, and we continue to remain focused on CV Med opportunities. John, do you want to add a little bit more on what you see of this partnership?

John Young - Pfizer Inc - President & GM, Primary Care

Yes, thanks for the question, Gregg.

I think first thing to say is, we really are very excited about the opportunity of this collaboration with Merck to develop and commercialize ertugliflozin and ertugliflozin-containing fixed dose combinations with metformin and Januvia. It's a proprietary innovative SGLT 2 inhibitor for the treatment of Type II diabetes, which as you know, is a huge unmet clinical need and one that is growing. We expect to begin Phase III trials later in 2013, and we think that the clinical profile and differentiated mode of action has the potential to really compliment the market-leading therapeutic profile of Januvia brought to the collaboration by Merck. So overall we think, as Ian said, this is a very positive opportunity, and one that really gives us a great entry point for the ongoing research effort that we have in cardiovascular metabolic.

Maybe just to pick up on your question on pain and opioids as well. Clearly, it's been an interesting last few months with some of the decisions that the FDA have made, which I think is really a recognition of some of the challenges that we have here in the United States with the abuse of opioids. I think the decision, along with the guidelines that the Agency issued in January, really helped to inform our development strategies, specifically with Embeda. As we said last quarter, the required stability programs are already underway.

We're working towards the submission of a prior approval supplement for Embeda in 2013, and we believe that Embeda, subject to successful completion of those stability programs, will be commercially available in the first half of 2014. For Remoxy, we had a productive meeting with the FDA in March. And the guidance that we got out of that meeting is certainly helping to inform the next steps in addressing the issues that the FDA raised previously in their complete response letter. We believe we have a path forward, and we will publicly communicate further details over coming quarters.

Ian Read - Pfizer Inc - Chairman & CEO

Thank you, John. Frank, do you want to take the total shareholder return question?

Frank D'Amelio - Pfizer Inc - CFO

Sure. So Gregg, let me run the numbers first, and then I'll give you a little more color commentary. So the payout ratio for the quarter was 44%, right? \$0.24 on the dividend over \$0.54. So 44% payout ratio for Pfizer. If you look at what we've done with the dividend since the acquisition of Wyeth, right? When we announced Wyeth, we cut the dividend from \$1.28 to \$0.64. Since then, we've raised it from \$0.64 to \$0.72, \$0.72 to \$0.80, \$0.80 to \$0.88, then \$0.88 to \$0.96. So 12.5%, 11%, 10%, and 9% increases respectively, just in terms of running the numbers.

In terms of what we'll do going forward with the dividend, is every year in December, Ian and I make a recommendation to the Board of Directors, and then once we get approval from the Board of Directors, we obviously announce that to the investment community literally that day or the next day. So that's the game plan for the dividend on a going-forward basis.

In terms of just capital priorities, capital deployment priorities, from my perspective they remain the same. So first and foremost in terms of total shareholder return, we understand the importance of dividends and buybacks. So that clearly remains a priority. Investing in the business, whether that be with R&D programs, capital expenditures, launch costs associated with our new products, continue to invest in the business, business development will be an area that we continue to look at, the amount of cash that we repatriate overseas. So, all of the things that I've talked about previously, and I think what's most important is, because of the amount of cash that we generate from operations, we have the ability to do all these things, which is really -- it's a nice luxury to have. So that's how I'd answer the question.



Ian Read - Pfizer Inc - Chairman & CEO

Thank you, Frank.

Chuck Triano - Pfizer Inc - SVP, IR

Next question please?

Operator

Your next question is from Tim Anderson of Sanford Bernstein.

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

Thank you. A couple of questions. You talked about Prevnar being weak in Q1 due to timing. That would imply we should see a rebound in Q2 through Q4, such that on a full year basis we'll still see growth across the franchise. Is that a correct way of looking at it?

And then the second question relates to the mechanics of potentially breaking up the Company further. You mentioned recently that one of the things that would be needed to do this is three years of audited financials. My question is whether that three-year clock has started yet, and if not, does that mean that the earliest anything could happen, in terms of actually accomplishing the split, would be 2016, or can you look backwards and satisfy some of that three-year period versus it being fully forward-looking?

Ian Read - Pfizer Inc - Chairman & CEO

Tim, thank you. So I just want to emphasize firstly that I believe we do have two operating models, two core business in the Company. The first order of business is to find a model where we can separate them and give the management the ability to run those businesses with as much authority and independence as necessary, and to judge if those businesses inside Pfizer can fulfill what we believe is their full potential, and where the shareholders see the potential of those businesses, and value them fully inside that combination.

If we decided, or came to the conclusion, that there were further benefits from a split of those businesses, and that decision has not been taken. I believe the earliest we could do that would be in '16. And as I say, this year we're studying how best to report out the results, and how complicated it will be for us to start generating different P&Ls, and even potentially balance sheets. So, that's the situation where we are, and we will give you more color on when and how later on this year.

With that, I would turn it over to Geno for this comments.

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

Yes, Tim.

Just on the Prevnar, I think actually you have it right. I think our first quarter was impacted by some inventory differences compared to the first quarter last year, primarily with the CDC purchases, some stockpile purchases last year in the first quarter. And even in the private market we saw slightly lower inventories in the first quarter this year compared to the first quarter last year. That will probably even out as we go through the year. Those decreases relative to last year, offset a little bit by some price increase that we had for this year in the US in the first quarter, and a little bit of adult business that started to creep in.



So all-in-all, I think the business is stable in Europe. We're actually up about 3% for the first quarter, reflecting a better pricing situation in the UK. And for emerging markets, rest of world, we're off again slightly in the first quarter this year related to purchase timing primarily. The fundamentals of the business are very sound. The only NIP that we don't have this year that we had before is Morocco. It's about a \$9 million impact. So, we're on pretty solid ground with Prevnar. I expect we will see strength as we go through the rest of the year.

Ian Read - Pfizer Inc - Chairman & CEO

Thank you, Geno.

Chuck Triano - Pfizer Inc - SVP, IR

Thanks, Geno. Next question, please?

Operator

Your next question is from Mark Schoenebaum of ISI Group. Please go ahead.

Mark Schoenebaum - ISI Group - Analyst

Hey, guys. Thanks a lot for taking the question.

On Xeljanz, if the appeal doesn't work out and you end up refiling, what new data would you have that would allow a refiling? And the second question is on PD991. Given the mechanism of action, I guess there's a reasonable -- it's reasonable that it may work across different tumor types, and I'm wondering if you've seen strong signals, Dolsten -- Mikael, outside of breast? And then just finally on the EM, you mentioned EM, you thought growth would pick up in the second half, and I was looking for a little bit of color on that, why you think that's going to happen?

Thanks a lot.

Ian Read - Pfizer Inc - Chairman & CEO

Geno, if you could deal with the Xeljanz, and then I'll have Mikael talk about palbo, and Olivier talk about EM.

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

Yes. So Mark, so Xeljanz in Europe, as we've indicated, we're going to go through a re-examination process. We hope to be able to clarify some of the issues that that were raised by CHMP and either eliminate the majority of them or some of them so that we can focus our follow-up activities on the areas that are of most interest or concern to the CHMP.

We would probably spend more effort analyzing and reanalyzing data that we have to complete a new filing. We would have some additional data from our 1069 study, the two-year data, which would be new, and we would have updated safety tables from ongoing long-term extension trials as primarily the new data that we would put into the filing. But I think it has more to do with going deeper into some of the areas that the CHMP has asked about, and I think we can do some of that with just stronger analysis of some of the databases that we've already discussed.

Ian Read - Pfizer Inc - Chairman & CEO

Thank you, Geno.



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

So on palbociclib, and Mark we appreciate your interest in how this drug could be fully developed. Yes, certainly we are exploring opportunities in a number of different tumor segments, and we have preclinical and some early clinical signs that this mechanism can have important outcome also in other tumors. We are starting now, or are thinking on starting, across a number of segment from melanoma to squamous cell carcinoma in a variety of different locations, which can include head, head and neck, lung, esophageal tumors. I would like, though, to underline that given the strength of palbociclib in ER-positive breast cancer and amount of understanding we have got on importance of this drug in breast cancer, as Geno outlined, this year we are starting three different breast cancer trials, advanced ER-positive breast, early breast cancer that are ER-positive and recurrent.

But in addition to that, there are more segments in the ER-positive that we are considering as opportunities, which can include medium to low risk ER-positive breast, and also within the HER2 segments, substantial proportion, also carry the ER-positive signature. So Mark, given the very strong signal in breast, it's compelling to consider that just the breast cancer ER-positive segment alone obviously have potential to make these one of the most impactful drugs, in addition to exploring other tumors, as you asked for.

Olivier Brandicourt - Pfizer Inc - President & GM, Emerging Markets and Established Products

Okay Mark, coming to emerging markets, you heard Ian and Frank talking about the one-time event of government purchases of Enbrel in Brazil and Plevinar in Mexico and some countries in Africa and Middle East. Those had significant impact on the growth for the quarter. And taking those events out, the underlying growth is more like 10% for EM, and something around 14% for BRIC-MT countries. So reason why we are expecting better second half in term of growth rate is due to the fact that we are still expecting to get the full year purchase order of those medicines, and I'm talking NIP, Plevinar, and Enbrel, but the timing would be pushed for the second half of the year.

Ian Read - Pfizer Inc - Chairman & CEO

Thank you, Olivier.

Chuck Triano - Pfizer Inc - SVP, IR

Thanks. Next question please?

Operator

Your next question is from Steve Scala of Cowen.

Steve Scala - Cowen and Company - Analyst

Okay. I have a few questions. What was the rationale for designing CAPiTA without a comparison arm with Pneumovax, and without such a comparison, do you believe you can still get an ACIP approval? Secondly, does the ongoing Phase III Palbo trial have an interim look built in, and if so, when would we get that data? And then thirdly on Xeljanz, I appreciate it's early days, but of the \$11 million in Q1, how much of that was pipeline stocking? Thank you.

Ian Read - Pfizer Inc - Chairman & CEO

Okay. Geno, would you like to take all three? I mean, the CAPiTA trial design, the palbo, and the Xeljanz?



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

Yes. The CAPiTA trial design was obviously discussed with regulators. This is a postmarketing commitment for the accelerated review in the United States. So this is a trial design that's been thoroughly discussed and agreed upon with the FDA, and the decision to not include Pneumax in the -- as a competitor arm, I think was related to the fact that there's a lack of evidence that there's a Pneumovax affect on community-acquired pneumonia. But essentially, it was an agreed-upon protocol with the regulators. We do believe that with positive data, that we will be able to demonstrate, or reach agreement on a favorable recommendation from ACIP.

So, with the Palbociclib Phase III trial, there is a provision for an interim look. I don't know what the timing on that is, so I can't give you a date. We'll have to follow up with you, Steve on that.

And with Xeljanz, of the \$11 million, almost none of it is pipeline stocking. We put very small amount of product in the marketplace at the end of last year. Because of the cost and the Specialty Pharmacy management of a drug like this, there are not large inventories out there.

Ian Read - Pfizer Inc - Chairman & CEO

Thank you, Geno.

Chuck Triano - Pfizer Inc - SVP, IR

Next question, please?

Operator

Your next question is from Andrew Baum of Citi. Please go ahead.

Andrew Baum - Citigroup - Analyst

Good morning. Three questions, please. Firstly on palbociclib, you mentioned the recurrent breast cancer trial you're running. Just to understand the trial design, are you looking at adding the drug on top of Afinitor, or looking at it in a head-to-head design? Second, are you looking at the development of palbociclib with concomitant chemotherapy in select hemotypes using the drug as a chemoprotectant, which as an idea has been suggested by some? And then finally on Xeljanz, could you just outline the rapporteur and co-rapporteur, whether the possibility exists for seeking individual rather than central approval, if you do in fact perceive the rejection from your ongoing appeal?

Ian Read - Pfizer Inc - Chairman & CEO

Thank you, Andrew. I'll ask Mikael to answer the palbo questions, and then perhaps Geno could talk a bit about the Xeljanz and the European Union.

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

Yes, so concerning palbo, our Phase II study was on top of letrozole, an aromatase inhibitor. We do think that the unique opportunity with palbociclib is, to a large extent, to delay the need, or replace the need, for chemotherapy with all its burden on patients. So, our treatment designs for the advanced and recurrent involves the use of additional hormone blockade beyond letrozole, and particular for the recurrent, we are keen on the opportunity to add a drug on top of fulvestrant, which you may know has been used and demonstrated to be an agent that can have some intrinsic activity, even after hormone receptive blockade is diminished by receptive-antagonist by having additional receptive degradation of the estrogen



pathway. But we haven't excluded opportunity for certain chemo combinations, but we are even more enthusiastic about the ability to give profound treatment effect without the severe side effect of chemo treatment.

Ian Read - Pfizer Inc - Chairman & CEO

Great. Thank you very much. Geno?

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

Okay, Andrew. I think your question was related to the opportunity, or the potential to go forward with individual country registrations versus the central approach in the event that we're not successful with the reevaluation. Certainly there's an opportunity to explore that option, but we are not at a point yet where we're prepared to make that decision.

Ian Read - Pfizer Inc - Chairman & CEO

Thank you, Geno.

Chuck Triano - Pfizer Inc - SVP, IR

Next question, please, operator?

Operator

Your next question is from David Risinger of Morgan Stanley. Please go ahead.

David Risinger - Morgan Stanley - Analyst

Yes, thank you. I have a couple of questions, please.

First, with respect to separating established products, could you just explain to us some of the operational changes that you're making? For example, I think you've mentioned in the past that you're moving some lines of manufacturing to different parts of facilities. But, if you could go into more detail on operationally what action is being taken, that would be helpful.

And second, with respect to the possibility of exiting the business, I'm just curious about whether you need the three years of financials to be able to do a tax-free spinoff and that's why you're looking at a three-year timeline, or whether you could exit the business sooner through a simple sale of the business? Or would that just be too difficult from a tax standpoint to exit the segment through a sale prior to having three years of audited financials?

Thank you.

Ian Read - Pfizer Inc - Chairman & CEO

Thank you.

Well, on separating the business, we already have separated the management in the US and in developed markets. The key question that we're looking at is in our BRIC-MT and our emerging markets that are very successful and growing aggressively, what would we need to do to separate

out, and what would be the dynamics of that, of separating out, and what portfolio would we separate out so as to create an innovative core and a value core, and how would we allocate capabilities and assets within that. This is not a sort of trivial undertaking in an organization that's already performing so well.

And then the second part would be, clearly on the manufacturing side we would want to try and identify plants that are purely of a value or established products co-type plants, and there have to be independencies, and you look at that, and then you also have to look at the tax issues as you do that.

So this is, we believe, worth doing. I believe it's worth creating that separation internally, because I think it brings focus and management focus, and will improve the performance of those two businesses. But it's something that we're doing carefully, given that it's a sort of a reorganization, or a potential reorganization of emerging markets that is being so successful as is, but certainly that's some of the considerations as we go to look at this separation. Now, I'll ask Frank to talk about the timing and the mechanics of that, but I would just add that if, under your hypothetical scenario of a buyer, I'm sure the buyer would want to see P&Ls and balance sheets.

Frank D'Amelio - Pfizer Inc - CFO

And Dave, I think what I'll add to what Ian said is, when we talk about the three years, it's really a path that's similar to what we did -- if we were to do it, a path that's similar to like the Animal Health path, where basically it's a path that we're doing it ourselves, and we set ourselves up in a position to be able to do whatever kind of optionality we want on a standalone basis. But that's what we think about when we talk about the three years.

Ian Read - Pfizer Inc - Chairman & CEO

So the underlying thesis of this is that we have an innovative core, which is focused on science and focused on selling and delivering education in a certain way, and would have an exciting pipeline that would drive substantial growth, and certain shareholders would have an appeal for that type of investment. And then we would have a value company which has substantial cash flows, large dividend capacity, big brands in emerging markets, more of a traditional selling model, also with branded generics. But also we want to take time, as we go through the next couple of years, to see how do we strengthen both of those segments. We're strengthening innovative core with a pipeline. We also want to look at how do we strengthen the value business at the same time. Thank you.

Chuck Triano - Pfizer Inc - SVP, IR

Next question please?

Operator

Your next question is from Seamus Fernandez of Leerink. Please go ahead

Seamus Fernandez - Leerink Swann & Company - Analyst

Thanks very much. So just wanted to check in on BD. Historically you've discussed primarily tuck-in acquisitions, Frank. Maybe you can just give us -- reiterate the thresholds, or give us the thresholds that you're thinking about in that regard. Also historically you've talked about interest in the sterile injectable space as a potential area of interest. Can you just update us on that as well?

And then lastly, on psoriasis and the indication for -- potential indication for Xeljanz, can you just give us a sense of the dose used in the oral studies, as well as the pursuit of a topical formulation? And I'm more asking that in the context of safety questions that have been raised, at least by the CHMP. Thanks very much.



Ian Read - Pfizer Inc - Chairman & CEO

Geno, could you answer the psoriasis question?

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

Yes. So for the psoriasis program, our Phase II trial we used a 5-milligram and a 15-milligram dose, and I think those results have been disclosed. In the Phase III, we have the 5-milligram and 10-milligram doses, both administered b.i.d. And, again, you'll -- we'll be seeing readouts the middle of this year on those trials. We are working on topical formulation, and intend to initiate a Phase II trial with the topical formulation this year.

Ian Read - Pfizer Inc - Chairman & CEO

Okay, on BD, I'd just like to preface a few comments and make a few comments, then pass it over to Frank. Our view on BD has always been that it's not a strategy, it's an enabler, and we will do BD if we see a clear path to increasing shareholder value. So we've always said never say never to big deals, and we've said we're looking at bolt-on deals. Well frankly, any deal where we felt that there was a convincing argument that we would add value to our shareholders. So Frank, do you want to make more comments to that?

Frank D'Amelio - Pfizer Inc - CFO

Yes, I think what I would say is just to punctuate Ian's comments is, from my perspective, although we never say never, the strategy remains bolt-on acquisitions. And when you say the thresholds, in my mind the target areas are our priority therapeutic areas, inflammation and immunology, pain, oncology, CV Med, Neuroscience, emerging markets.

You've seen us do -- take actions in the emerging markets, more on a local basis, when you see what we've done there, and then established products, which by the way, comprises a major part of our Emerging Markets business, and that includes things like reformulations, for example, which was the Quillivant transaction with NextWave. So those have been the strategies, those continue to be the strategies, and always with the focus being how do we create shareholder value.

Chuck Triano - Pfizer Inc - SVP, IR

Next question please?

Operator

Your next question is from Alex Arfaei of BMO Capital Markets. Please go ahead.

Alex Arfaei - BMO Capital Markets - Analyst

Good morning. Thank you for taking the question. First a question for Frank in cost cutting. I think last year you characterized it as being in the middle innings. I was wondering if you could update us and let us know which inning we're in now? And then a follow-up on Xeljanz for Geno. Could you talk about your sampling strategy, and would you characterize it as aggressive? And could that perhaps dampen sales a little bit, and when do you expect those patients to come back to their physician to perhaps get a prescription? Thank you.



Ian Read - Pfizer Inc - Chairman & CEO

Frank?

Frank D'Amelio - Pfizer Inc - CFO

So last year I did say middle innings. If you looked at what we saved operationally last year in terms of our total cost and expense base, it was almost \$4 billion in operational savings. I think the exact number was about \$3.8 billion. I think we've clearly entered the late innings. So I think we're entering the seventh inning right now. Still opportunities to further reduce cost. I think you saw that again this quarter. Adjusted cost and expenses were down operationally \$545 million, 7%, but I think when you look at kind of the continuum, the rhythm, I think we've entered, just started entering the late innings.

Ian Read - Pfizer Inc - Chairman & CEO

Xeljanz?

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

Yes. So Alex, the program that we put out there for Xeljanz, there were two sampling programs. One is a 14-day sample that's primarily managed through our patient support program to help patients get started on therapy right away while they are going through the prior authorization process. So that's a 14-day relatively short-term program.

And then we gave select physicians a series of 28-day patient starters. So again, they could get some early experience. It's very difficult for us to track the utilization of those samples. So it's difficult for me to say whether or not I think that's influencing the uptake, and I'm not sure I would call it aggressive. I think we were somewhat pointed in the way we distributed those samples. So, we'll see how things play out.

Chuck Triano - Pfizer Inc - SVP, IR

Thanks, Geno. Next question please?

Operator

Your next question is from Tony Butler of Barclays Capital.

Tony Butler - Barclays Capital - Analyst

Thanks very much.

Just briefly one question on -- or two parts to Eliquis. One is around overall spend there. Do you feel, and I realize it's an early launch, that the overall spend so far has been, as you've predicted, sufficient for the initial launch? And the second issue is, assuming the six-month moratorium on DTC is over, do you anticipate a direct-to-consumer campaign, much like occurs with Rivaroxaban? Thank you very much.

Ian Read - Pfizer Inc - Chairman & CEO

Thank you Tony. John?



John Young - Pfizer Inc - President & GM, Primary Care

Okay. Thanks for the question, Tony.

So, I think the first point to make is that, along with our partners BMS, we've been very thoughtful about making sure that we're very focused on our investment, but we are also mindful of the very competitive nature of this market and resourcing. What we remain convinced is, actually, a really significant opportunity to improve the outcomes for patients with the indications that we've researched thus far.

So we've deployed our resources that have made sure that we are competitive. In addition to just this year spend, I think the other thing that both companies bring is, obviously, a strong heritage in cardiovascular medicine between Pfizer and BMS, which we believe is a real positive advantage for us in the marketplace.

And our expectations for Eliquis are broadly in line with launches. Ian mentioned in his opening comments, we always have known this was going to be an opportunity that was going to require us to displace our competitor in warfarin that's been in the marketplace for 50 years. But we are very positive about the progress that we've made thus far, and certainly what we've seen as a trend in the marketplace that has Eliquis pretty much on track for, actually, the second NOAC to enter, Xarelto.

In terms of DTC specifically, you're absolutely right. We are currently in that six-month moratorium period, but certainly as an alliance, we would, once we have come out of that moratorium period, subject obviously to clearance by both OPDP and FDA, we would certainly have plans to initiate a DTC campaign in the US to enable us to communicate the benefit/risk of Eliquis to patients and we are very positive of that as being a further opportunity that will kick in in the second half of the year.

Chuck Triano - Pfizer Inc - SVP, IR

Thanks, John. Next question please?

Operator

The next question is from Jeff Holford of Jefferies.

Jeff Holford - Jefferies & Company - Analyst

All of my questions have been answered, thank you.

Chuck Triano - Pfizer Inc - SVP, IR

Next question, operator?

Operator

Your next question is from Michael Tong of Wells Fargo.

Michael Tong - Wells Fargo Securities, LLC - Analyst

Thanks, just one quick question on the R&D side. If I look at Inlyta and Xalkori, nice to see the ramp coming up, but in the overall scheme of thing, still a relatively modest contributor to the top line. So maybe for Frank or Mike, as you think about capital allocation within the R&D segment, where



are you allocating your R&D dollars? Maybe perhaps give us an idea of how you're splitting between Primary Care and Specialty Care at the moment, and where you think it might be in two to three years time?

Ian Read - Pfizer Inc - Chairman & CEO

Well, thanks for the question. We have TAs, which we've broadly stated we are spending on, which is oncology, and vaccines, and inflammation, and immunology, CV Med, oncology, pain, and that's where we're dividing our spend, and we're dividing it as we see opportunities that occur in the science. I personally am excited about what we see coming out of our Oncology portfolio, and I think they have the potential to be a large driver on our revenue as we go forward, as does the vaccine segment where we're investing in, which really basically we started investing from a standing start after acquiring Wyeth. They had one large and good vaccine, but since then we've really building up a portfolio of vaccines. So perhaps Mikael may just want to comment briefly on the more interesting Oncology projects.

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

Yes. So, overall Oncology is our largest investment in R&D, slightly above 20% of the R&D investments, followed by immunology/inflammation, just slightly below that. And then a number of the other core areas are somewhere between 10% to 20%. And we tried to do regularly capital allocation by looking at what's in the pipeline, what is looking most promising, and where we see return of investment going forward. So it's certainly not carved in stone, but as we do cross the business in R&D allocation to maximize output.

Particularly in Oncology, we have, after the successful launch of three products. In recent one to two years, we now have a second wave that we are very excited about. On one hand, dacomitinib that will generate data within the next period of this year or the next year, inotuzimab for blood cancer, and of course palbociclib, as we spoke a lot about today. But behind that, we have other interesting Oncology drugs, such as smoothened inhibitor for multiple blood cancers and P13K mTOR, and for that we'll have readout over the next couple of years in several solid tumors. So it's quite the rich portfolio in oncology, immunology, vaccines, and across the various therapeutic areas.

Ian Read - Pfizer Inc - Chairman & CEO

Thank you Mikael.

Chuck Triano - Pfizer Inc - SVP, IR

Thanks Mikael. If we could take our last question, please operator?

Operator

Your final question comes from Damien Conover of Morningstar.

Damien Conover - Morningstar - Analyst

Thanks for taking the question. Just one question on the strategic deployment of capital to research and development. As the pipeline has shown a lot of strength in productivity over the years, a lot of that strength is coming from the R&D spend where the spend was much higher. As you look forward, are you comfortable with around 12% of sales going to R&D, in keeping this high productivity going -- to keep it going over the long term? Thank you.



Ian Read - Pfizer Inc - Chairman & CEO

Thank you for the question. We're very confident with our capital allocation. We simply have the right balance allocated to research right now, and it obviously depends upon opportunities that come in the pipeline. If large opportunities come that look very promising and require substantially more resources, then we would not shrink from putting those resources there, assuming we believe in the opportunities. Thank you.

Chuck Triano - Pfizer Inc - SVP, IR

Thanks Ian, and thanks everyone for your attention this morning.

Operator

This does conclude the conference. You may all disconnect.

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