PFE announced 3Q12 revenues of approx. $14b and reported diluted EPS of $0.43. Management announced 2012 revenue guidance of $58-59b and 2012 adjusted reported EPS guidance of $1.30-1.38.
CORPORATE PARTICIPANTS

Chuck Triano Pfizer Inc - SVP, IR
Ian Read Pfizer Inc - Chairman, CEO
Frank D'Amelio Pfizer Inc - CFO
Geno Germano Pfizer Inc - President & GM, Specialty Care and Oncology
Mikael Dolsten Pfizer Inc - President, Worldwide Research & Development
Olivier Brandicourt Pfizer Inc - President and General Manager of Emerging Markets and Established Products
John Young Pfizer Inc - President & GM - Primary Care

CONFERENCE CALL PARTICIPANTS

Jami Rubin Goldman Sachs - Analyst
Tim Anderson Sanford C. Bernstein & Company, Inc. - Analyst
Mark Schoenbaum ISI Group - Analyst
Tony Butler Barclays Capital - Analyst
David Risinger Morgan Stanley - Analyst
Chris Schott JPMorgan Chase & Co. - Analyst
Steve Scala Cowen and Company - Analyst
Seamus Fernandez Leerink Swann & Company - Analyst
Jeff Holford Jefferies & Company - Analyst
Alex Arfaei BMO Capital Markets - Analyst
Damien Conover Morningstar - Analyst
Mark Urness UBS - Analyst

PRESENTATION

Operator

Good day, everyone, and welcome to Pfizer's Third Quarter 2012 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

Thanks, Operator. Good morning, everyone, and thank you for joining us today to review Pfizer's third-quarter 2012 performance. Today, I'm joined 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, who is joining us remotely due to the storm situation; Geno Germano, President and General Manager of Specialty Care and Oncology; Amy Schulman, General Counsel, President and General Manager of Pfizer Nutrition and Consumer Healthcare; and John Young, President and General Manager of Primary Care. The slides that will be presented on this call can be viewed at Pfizer.com by clicking on the link for Pfizer Quarterly Corporate Performance, third-quarter 2012, 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 this conference call will include forward-looking statements and that actual results could differ materially from those projected in the forward-looking statements. The factors that could cause actual results to differ are discussed in Pfizer’s 2011 annual report on Form 10-K and in our reports on Forms 10-Q and 8-K. Discussion during this call will also include certain financial measures that were not prepared in accordance with generally accepted accounting principles. Reconciliation of those non-GAAP financial measures to the most directly comparable GAAP financial measures can be found in Pfizer’s current report on Form 8-K dated today, November 1, 2012.

In addition, we will offer some brief comments regarding our preparation and target timeline for the potential IPO of a minority stake in our Animal Health business, Zoetis, and as I’m sure you will understand, we’re not going to be able to respond to questions on that subject in light of the quiet period imposed by securities laws. With that, I’ll now turn the call over to Ian Read. Ian?

**Ian Read - Pfizer Inc - Chairman, CEO**

Thank you, Chuck. During my remarks this morning, I will briefly discuss the quarter and touch on some noteworthy events that happened in the weeks. Overall, our performance remains in line with our full-year guidance. As we have discussed over the course of this year, our financial performance in the near term will continue to be impacted by the losses of exclusivity, notably Lipitor, in all major developed countries. Year-to-date, we have absorbed approximately $5.5 billion in LOEs. I would note the most significant impact on revenues from LOEs will be in 2012, and this impact will decline significantly in subsequent years. To mitigate the impact to our earnings per share, we are producing growth from key in-lines, patented products, including Lyrica and Celebex globally, and Viagra in the US.

We are seeing growth in emerging markets, most notably in China, Mexico, and Russia. On a year-to-date basis, our emerging market business has delivered solid performance with 10% growth on an operational basis. We have been effectively managing our cost structure and using the strength of our balance sheet. For example, while revenue for the quarter declined 12% on an operational basis, our adjusted cost of sales, SI&A expenses and R&D expenses, in total, decreased operationally by 8%. And if you exclude the $250 million payment to AstraZeneca for the exclusive worldwide rights to the over-the-counter Nexium, they would have declined 11% operationally, bringing costs down in line with the revenue decline we saw this quarter.

We continue to execute our share repurchase program. During the quarter, we repurchased $1.8 billion of common stock and our year-to-date repurchases are almost $6 billion. The Board has authorized an additional $10 billion in share repurchases, to be utilized over time upon completion of the sale of Nutrition to Nestle, which we now anticipate in the next few months. Our potential IPO for Animal Health remains on track, and depending on market conditions, we continue to expect the IPO to happen during the first half of 2013. As per our regular practice, I expect the Board to set the dividend rate for 2013 at its meeting in December.

Turning now to some recent noteworthy events. I remain confident in the quality of the assets and the progress I see in our pipeline. We have a robust set of potential high-value assets across our key therapeutic areas. They include some in early and mid-stages for diabetes, pain and cardiovascular diseases, vaccines for Mening B adolescents and staph aureus and late-stage oncology compounds and recent advances for key pipeline assets.

Concerning tofacitinib, we are looking forward to hearing from the FDA about our NDA on or before the upcoming PDUFA date this month. Tofa was discovered by Pfizer scientists in our labs in Groton, Connecticut. If approved, it will be the first new oral disease-modifying therapy for moderate-to-severe rheumatoid arthritis in more than 10 years. It has the potential to change the way health care providers treat RA. It would also be the first RA treatment in a new class of drugs known as Janus kinase, or JAK inhibitors. If approved, it will be a first-in-class product that we believe will offer a compelling clinical profile and effective new treatment option for patients. Regarding Eliquis, the FDA has resumed its review of the Eliquis NDA, and set a new action date of March 17, 2013. We and our alliance partner, Bristol-Myers Squibb, remain confident in the therapeutic profile of Eliquis, and that we can receive FDA approval by the new PDUFA date.

Turning to oncology, Xalkori just received conditional marketing authorization in the EU for previously treated ALK-positive advanced non-small cell lung cancer patients. A conditional marketing authorization in the EU is similar to accelerated approvals in the United States. They are granted to medical products with a positive benefit-risk assessment that address unmet medical needs and whose availability would result in a significant public health benefit. Pfizer will submit data to the EMA from the recently completed study which met its primary end-point in previously treated...
ALK-positive advanced non-small cell lung cancer patients. For a review of this data, the European Commission will consider converting the conditional marketing authorization to a full marketing authorization.

And coming in our consumer business, we are encouraged by positive news that multi-vitamins resulting from the Physicians Health Study Two, conducted by investigators at Brigham and Women’s Hospital, a teaching hospital at Harvard University. We are pleased that the study investigators chose Centrum Silver based on its quality and consistency, among other factors, for the duration of the 11-year study that tested the role of multi-vitamins in relation to long-term benefits. I would note that Centrum is the sixth largest OTC brand in the world, and Centrum Silver is the world’s number one selling multi-vitamin for adults 50 and over.

We have recently launched new products, Inlyta in Europe, Bosulif in the US, and we will soon launch Xalkori in Europe. I remain confident that we have a strong pipeline focused in the therapeutic areas where we have strengths, and which can deliver our next wave of innovative products. I am pleased with how we are executing our decisions we have made to create meaningful incremental shareholder value through the potential Animal Health IPO and Nutrition sale. We are seeing good results from the actions we are taking to manage costs across the business. We continue to make shareholder-friendly capital allocation decisions, and finally we are making decisions that we believe have the potential to drive future earnings-per-share growth. Now, I’ll turn it over to Frank.

Frank D’Amelio - Pfizer Inc - CFO

Thanks again. Good day, everyone. As always, the charts I’m reviewing today are included in our webcast. I want to, again, remind you that the Nutrition business is presented as a discontinued operation in consolidated statements of income for all periods presented. As you know, discontinued operations are excluded from Adjusted financial results. Consequently, throughout 2012, the results of the Nutrition business have been excluded from Adjusted results.

Now, let’s move on to the financials. Third-quarter 2012 revenues were approximately $14 billion, decreased 16% year-over-year, reflecting a 4% negative impact from foreign exchange and an operational decline of approximately 12%, driven mainly by the loss of exclusivity of several key products in certain geographies, notably Lipitor, in all major markets. Adjusted diluted EPS of $0.53 decreased 12%, primarily due to the previously mentioned decrease in revenues, which was partially offset by an aggregate operational decrease of 8% in adjusted cost of sales, adjusted SI&A expenses and adjusted R&D expenses, primarily resulting from cost reduction and productivity initiatives, a lower adjusted tax rate of 28.3% and fewer weighted average shares outstanding due to our continued share repurchases. Reported diluted EPS of $0.43 decreased 10%. In addition to the factors previously mentioned, reported diluted EPS was favorably impacted primarily by a US tax settlement, and negatively impacted primarily from the non-recurrence of the gain on the sale of Capsugel in the year-ago quarter.

Foreign exchange negatively impacted third-quarter revenues by 4%, or $699 million, and favorably impacted adjusted cost of sales, adjusted SI&A expenses, and adjusted R&D expenses by $440 million, or 5%. This negative impact was primarily driven by the euro and to a lesser extent, the Brazilian real versus the US dollar. As a result, foreign exchange negatively impacted third-quarter adjusted diluted EPS by approximately $0.02. In the third quarter of 2012, emerging markets biopharmaceutical revenues were approximately $2.4 billion, which reflects operational growth of 6%, and the negative impact of foreign exchange of 8%. I want to point out that the volatility in our emerging markets quarterly revenues was driven primarily by Prevenar purchasing patterns, specifically the timing of government purchases of Prevenar 13 in Turkey compared to the year-ago quarter.

Volume growth of 8% in emerging markets was partially offset by price reductions of 2%, resulting in the 6% operational growth. Of the third-quarter emerging markets biopharmaceutical revenues, approximately 41% was generated by established products, 33% by specialty and oncology products, and 26% by primary care products. Third-quarter biopharmaceutical revenues in the BRIC-MT markets were approximately $1.1 billion, which reflects operational growth of 9% and the unfavorable impact of foreign exchange of 10%. Of the third quarter BRIC-MT biopharmaceutical revenues, approximately 42% was generated by established products, 30% by specialty and oncology products, and 28% by primary care products.

During the third quarter, biopharmaceutical volume growth of 10% in the BRIC-MT markets, most notably in China, Mexico, and Russia, was partially offset by price reductions of 1%, resulting in operational growth of 9%. Year-to-date operational growth in the BRIC-MT markets was 13%, versus the year-ago quarter reflecting volume growth of 16%, partially offset by price reductions of 3%.
Based on our year-to-date performance and outlook on the remainder of the year, we are narrowing the ranges for our full-year financial guidance components. We are narrowing the reported revenue range to $58 billion to $59 billion, from $58 million to $60 billion. We are decreasing and narrowing the range of adjusted cost of sales as a percentage of revenues to 18.7% to 19.2%. We are narrowing our adjusted SI&A expense range to $16.3 billion to $16.8 billion. We are narrowing our R&D guidance range to $7 billion to $7.25 billion. I want to point out that our R&D guidance includes the $250 million payment to AstraZeneca for the exclusive, global over-the-counter rights to Nexium, which we recorded in the third quarter.

We now expect other deductions to be approximately $900 million, and continue to expect the effective tax rate on adjusted income to be approximately 29%. We are increasing and narrowing the range of our reported diluted EPS to $1.30 to $1.38, and we are narrowing our adjusted diluted EPS range to $2.14 to $2.17. Finally, we now expect operating cash flow to be approximately $18.5 billion, which reflects the charge related to the Rapamune settlement recorded in the third quarter.

Our third-quarter results continue to reflect the loss of exclusivity of certain products, mainly Lipitor, in all major markets. That said, we are continuing to mitigate the impact of Lipitor -- of the Lipitor LOE, with expense discipline and share repurchases. We received US regulatory approval for Bosulif, and in the European Union, we received approval for Inlyta and conditional marketing authorization for Xalkori. We filed a registration statement in mid-August for a potential initial public offering of up to a 20% ownership stake in the Animal Health business to be named the Zoetis. And addition, we filed an amendment to the S-1 on October 10, which included updated financial statements through the second quarter 2012. We remain on track to complete a potential IPO in the first half of 2013, and as we continue to work toward a separation of the business, we remain open to all alternatives to maximize the after-tax return for our shareholders. We continue to create shareholder value through prudent capital allocation, with approximately $5.9 billion, or 255 million shares, repurchased through October 31, approximately $4.1 billion of authorization remains under the current repurchase program.

The Board of Directors also just recently authorized a new program upon the sale of the Nutrition business to repurchase up to 10 billion of our shares over time. We now expect to complete the sale of our Nutrition business to Nestle in the next few months. Finally, we expect return more than $12 billion to our shareholders through dividends and share repurchases during 2012. Now, I'll turn it back to Chuck.

Chuck Triano - Pfizer Inc - SVP, IR
Thanks for the review, Frank. At this point, Operator, if we could please poll for questions.

Jami Rubin, Goldman Sachs.

Jami Rubin - Goldman Sachs - Analyst
Ian and Frank, questions for you both. If you could give us some sort of granularity and color on what the revenue outlook for this company might look like in 2013 and beyond. Obviously, in 2012 we were in the teeth of patent expirations with the Lipitor LOE. But how should we think about, directionally, revenue outlook going forward? Also, to follow-up on tofa. Ian, you said you expected the FDA to act on or before the PDUFA date. Can you share with us your expectations for what kind of label you might receive? Thank you.
With revenue outlook, I'll make a few comments and let Frank add anything he wants to and I'll ask Geno to answer on the tofa question. The peak year of patent expiration for us as far as we can see is 2012, with approximately $8 billion. Subsequent to that, '13, '14, and '15, we'll continue to be faced with LOEs and alliance revenue losses that will be substantially lower than that. Probably a peak of $4 billion in one of the years, but between $3.5 billion and $4 billion in the subsequent three years. Still subject to alterations and fluctuations as patents expire.

So countering that, of course, we will have in-line growth from our patented products and emerging market growth. We’ll have the launch, we expect, of tofacitinib and Eliquis, and we expect also to have the launch of the Prevnar 13 adult vaccine. Those are the two currents, I would say, that would be affecting our revenue over those years. Frank, do you want to add anything to that?

I would simply add that in addition to everything Ian said, we will also continue to manage our cost structure, and we will continue to do share repurchases. All those things will lead to steady, consistent earnings growth over time.

Yes, just a couple comments, Jami, on tofa. We are nearing, I think, the end of the review process. We do expect that we’ll have an action by the PDUFA date this month. With regard to our expectations, I think you know that we have a very robust data set behind tofa with five large, pivotal trials, showing good efficacy and safety in both the pre-TNF and post-TNF setting. We think that the results that we’ve seen across this broad range of trials and broad range of patient types showed very consistent response, and we’re expecting to have a very competitive label.

I am just wondering if you can provide any more specifics on potentially splitting up the drug side? So what could it look like? What could the structure be? And, more importantly, when would we hear more? And then on tofacitinib, if I can just ask one question, do you expect that you will get both the 5- and the 10-milligram doses approved on the first go around?

Okay, well I’ll take the overall question and then I’ll ask Geno to reply on tofa. I think I’ve tried to be clear on this, that I see, putting Consumer to one side, which fits with either of the other two remaining businesses, I see us having two businesses going forward, once we finish the -- if we do complete the separation of Nutritional and Animal Health, I see us having a growth business, or an innovative business, which is fueled by the pipeline that I discussed earlier in my comments today.

And then I see a value business, which is depending on post-LOE or peri-LOE products, very broad geographic capabilities, large capabilities in reimbursement and managing a global business. Those two businesses are core businesses for us. We already have, in the developed market, separated those businesses out, so we do have an innovative business and an established products business, which equates roughly to those two segments.
And in the emerging markets, we continue to manage them as country organizations. Now, once we get through the changes of Animal Health and Nutrition, we will continue to look at how to best structure those two businesses so they can maximize the value to Pfizer.

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

Regarding the 5- and 10-, as you know, in all five of the pivotal trials that we conducted, we tested both the 5-milligram and the 10-milligram doses. Again, the results were very consistent across the board, across the patient types in the trials that were done. We believe that the benefit/risk is favorable for both the 5- and the 10-milligram, and at this point in our discussions with FDA, we're not going to comment any further on what we expect the final outcome to be.

**Operator**

Mark Schoenbaum, ISI Group.

**Mark Schoenbaum - ISI Group - Analyst**

Maybe if I could first just build on Tim’s question. Will you report out separately, at any point in the next year or so, the established products P&L versus the branded products P&L? Not breaking the company up, but just giving us more disclosure in the Ks and the Qs around those business operations?

And I had a question for Mikael Dolsten. I was wondering if he could update us on timelines, make sure everything is on track for the Prevnar CAPiTA trial and also bring us up to speed on the Mening B and staph vaccine programs? Thank you.

**Ian Read - Pfizer Inc - Chairman, CEO**

Okay, I'm going to ask Frank to answer the question on the reporting structure, and then Mikael, if you could take those -- the questions on the CAPiTA trial.

**Frank D'Amelio - Pfizer Inc - CFO**

On reporting, we provide revenue detail today by individual business unit. In the charts that I walk through, there's clearly revenue detail by business unit. In terms of beyond revenue detail, I think the way to think about this is the established products business has lower gross margins than the traditional pharmaceutical businesses, but has comparable operating margins because it requires less expense, which is something that we've talked about previously.

Going forward, we'll do what we always do, which is see where are there opportunities to improve the transparency of the company. To the extent that we see those opportunities to be more transparent, we'll incorporate those into our external reporting.

**Ian Read - Pfizer Inc - Chairman, CEO**

Thank you, Frank. Mikael, if you're --
Mikael Dolsten - Pfizer Inc - President, Worldwide Research & Development

Yes. Thank you for your interest in our vaccine pipeline. The Prevnar CAPiTA trial is event driven, and pending the seasonality and severity of pneumonias, it's often triggered by colds and flu seasons. We have in our projections that CAPiTA may have sufficient events during 2013 to allow us to aggregate data during the latter part of that year.

Mening B has gone very through productive dialogues with regulatory agencies in US and Europe, and we anticipate starting, and plan to start, before the end of this year. Staph aureus contains two studies that are in Phase 2, with a read-out during next year.

Operator

Tony Butler, Barclays Capital.

Tony Butler - Barclays Capital - Analyst

Two housekeeping questions and one R&D question, please. What were the sales of Xalkori and Inlyta? Second, if you look at Sutent, is it -- could we argue that it might be slowing if you simply look at it sequentially? Has it totally maxed its potential? And then, for Doctor Dolsten, an earlier-staged product, PCSK9, Pfizer seems to be a little bit behind at least two competitors. Given the Phase 2B just started from a dosing perspective and will not complete until next year, suggesting the Phase 3 trial would not necessarily start up until sometime later next year, or even later than that. And the question really is, how would you envision this emerging -- is a year behind not that big a deal? And more importantly, do you think there is a unique characteristic for your molecule that may be different from others?

Ian Read - Pfizer Inc - Chairman, CEO

Frank, could you address the sales of Xalkori and Inlyta, as Geno wants to comment on Sutent, and then I'll make a couple of comments on PCSK9 and I'll ask Mikael to comment further.

Frank D'Amelio - Pfizer Inc - CFO

Sure. On Xalkori, revenues for the third quarter were almost $40 million for Inlyta, revenues for the third quarter were almost $30 million. So approximately $40 million, approximately $30 million for those two drugs respectively.

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

Sutent is doing very well. It remains the number one choice in first-line metastatic RCC, and frankly, it's showing a lot of durability. We're looking forward to continuing our leadership position in RCC now with Sutent, Inlyta, and Torisel. It's a real strong franchise for us.

Ian Read - Pfizer Inc - Chairman, CEO

On Xalkori, the testing has gone up from 11%, I think, at the beginning of the year now, to 55%, which is very encouraging because that required a change in physician practice. And if that occurs, it makes us more optimistic about the potential for Xalkori going forward. And of course we now have the launch coming in Europe.

On PCSK9, I believe that we may be potentially a little bit behind some of our competitors. It really is an issue of, as you say, is a differentiation, and if we don’t have a first in class, do we believe we potentially have a best in class asset. And clearly, the development of this asset has several strategic options. Mikael, do you want to add anything on the science of that?
Mikael Dolsten - Pfizer Inc - President, Worldwide Research & Development

Let me add a few words. We are very excited about this drug class. We think there may be differences between antibodies in the performance during unionicity and in the dosing regimen. It’s important to have the optimal dose regimen to allow sustained relevant cholesterol levels in a convenient manner to be accomplished.

Operator

David Risinger, Morgan Stanley.

David Risinger - Morgan Stanley - Analyst

Two pipeline questions. I'm hoping to better understand the meningococcal B development program. As I see it on clinicaltrials.gov, you're running a phase 3 safety study involving 7,500 patients, and since it has the word safety in the title, I'm assuming that the drug -- the vaccine cannot be filed after that trial, that there will need to be additional phase 3 trial work. But I may be wrong, so just wondering if that trial successfully concludes, can you file or do you need to do additional phase 3 work?

Then the second question is for Mikael Dolsten. Mikael, can you just highlight the key phase 2 product readouts that we should be watching in the next 12 to 18 months? Besides the PCSK9, which you've already discussed. Thank you.

Ian Read - Pfizer Inc - Chairman, CEO

Mikael, could you handle the mening B question, and then also address the pipeline?

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

In the mening B program, it is correct, we have a safety study ongoing, but we're planning this year to start -- and also early next year -- several other studies that include large efficiency studies, and different batch lot consistency studies, and potentially concomitant vaccine studies. It will be a broad program that will be aimed to show effectiveness to raise relative immune responses and applicability for young and adolescent patients to use the vaccine.

When it comes to the pipeline, what should be the next wave to watch? Let me briefly mention some 10 key opportunities in 4 therapeutic areas. In oncology, I would mention dacomitinib for non-small cell lung cancer, inotuzumab for B cell malignancies, and PD 991, our exciting CDK inhibitor for advanced breast cancer. We are planning to present phase 2 data at the San Antonio Breast Cancer Symposium in December. In vaccines, we already spoke about the mening B vaccine and the staph aureus vaccine, which will have a few read-outs next year.

Tofacitinib, is, of course, the flagship in our immunology therapeutic area, with a portfolio of opportunities beyond RA. We are in phase 3 for psoriasis and ulcerative colitis. We are studying additional indication in phase 2, including Crohn's, and we're supplementing our inflammatory bowel disease activity with POC studies for madcam and IL-6 antibodies, which would have read-outs in the next 12 to 18 months. The IL-6 antibody would also have utility and there is a POC study ongoing in lupus.

Finally, in the cardiovascular metabolic area in addition to PCSK9, we also have an exciting pancreatic-acting glucokinase drug. As you can see, I selected some key -- 10 key opportunities of a very rich and diverse pipeline of some projects. Thank you.
Ian Read - Pfizer Inc - Chairman, CEO

I would just add to that, that clearly we started the safety program in mening B because those trials take longer than the efficacy programs, and clearly as we started our phase 3 trials, we now have an agreed upon development program at the FDA that we believe will lead to approval.

Operator

Chris Schott, JPMorgan.

Chris Schott - JPMorgan Chase & Co. - Analyst

Just a couple here. First, emerging market growth. It looks like it’s about 10% year-to-date, year-over-year growth. Obviously a nice step up over the 2011 results, but just interested in your thoughts on the longer-term growth opportunity in these markets. Do you think you can sustain low double-digit growth in the emerging markets over time or has enough changed in the macroenvironment were that’s no longer a reasonable target?

Second question was on the commercial opportunity for Eliquis. Any thoughts on your expectations for the label you might receive there? How you’re thinking about that market and how it has evolved so far with your competitors? And finally, can you give us an update on the status of Remoxy and Embeda? Just how we should be thinking about those?

Ian Read - Pfizer Inc - Chairman, CEO

Thank you. I'm going to ask Olivier to comment on emerging market growth potential, and then John Young will do Eliquis and Remoxy.

Olivier Brandicourt - Pfizer Inc - President and General Manager of Emerging Markets and Established Products

We think we can continue to perform in line with our goal, so high single-digit growth over the period. The microtrends continue to be favorable with increased amount of spending on healthcare and the pharmaceutical market, which is growing at 12% to 15% in the next few years. So again, we think we can maintain the high single-digit.

If you look at the 6% we achieved during the quarter, it’s very much influenced by the Prevenar and Enbrel institutional sales to government. If you take it out, that cadence, you look at the base business, during Q1 2012, we grew by 9%, the second quarter, 12%, and this quarter is still 11%. So all of that indicates that we have a pretty strong foundation and we think we can continue to build on it.

Ian Read - Pfizer Inc - Chairman, CEO

I would add also that were very pleased with our presence in the BRIC-MT markets with the accelerating growth there and the strength of our organizations. We're the number one multinational in China and we have impressive positions in the other BRIC-MT markets. So with that, John, would you like to take the other questions?

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

Obviously, as you're aware, and as we announced previously on September 26, the FDA acknowledged their receipt of the Eliquis NDA resubmission for our nonvalvular atrial fibrillation indication. That -- those discussions between Pfizer and BMS and the FDA are ongoing.
We continue to work very closely with them, and as you know, the target date for the FDA to complete their review is March 17, 2013, which is when the PDUFA date occurs. In terms of your question about how we see the potential, clearly we believe that Eliquis is differentiated from warfarin because it’s demonstrated superior efficacy, bleeding, and all-cause mortality compared to warfarin in a single dose.

We believe that we should have a compelling profile for both cardiologists as well as primary care physicians, and we’re obviously working very closely with our partner, BMS, to finalize the strategy and plans to make sure that we are very well prepared for launch.

So if I turn now to Remoxy and Embeda, if I take Embeda first of all. We met with the FDA in May of this year to discuss our proposal for reintroduction of Embeda to the market. The required stability programs are underway. And we anticipate a submission of a prior approval supplement in the first half of 2013.

If I turn to Remoxy, as you probably know from previous calls, Remoxy has been a challenging asset that our teams have been working on very diligently since the acquisition of King. As a result of that work and the extensive insights that we have gained around the formulation, we have initiated confirmatory bioavailability studies to assess the pharmacokinetic, or PK profile, of modified Remoxy formulation compositions. We expect those studies to read out in early in 2013. We think that the results of those studies will provide us with much greater clarity on whether or not we will be able to adequately address the questions raised and the complete response letter that we received from the FDA. So we are targeting a late-March meeting with the FDA to discuss those outputs and agree on a go, or no-go, decision.

One last comment just to make is that I think it’s important to remember that our commitment to this area is very strong, and as such, we continue to invest in our compound AL-02, which is an extended-release oxycodone, which uses a naltrexone platform technology and it is currently in phase 3.

Steve Scala, Cowen.

Frank, would you dissect the strength in gross profit margin? How much was currency, how much were efficiencies and how much was mix? Also, how much of the narrowing of the range in sales and EPS guidance for the year is due to adverse currency fluctuations? And then one for Dr. Dolsten. What is your post-mortem on bapineuzumab? Was it a flawed molecule? Did you study the wrong patients, or is the mechanism, in your view, unlikely to be effective? Thank you.

Steve Scala - Cowen and Company - Analyst

Frank, would you dissect the strength in gross profit margin? How much was currency, how much were efficiencies and how much was mix? Also, how much of the narrowing of the range in sales and EPS guidance for the year is due to adverse currency fluctuations? And then one for Dr. Dolsten. What is your post-mortem on bapineuzumab? Was it a flawed molecule? Did you study the wrong patients, or is the mechanism, in your view, unlikely to be effective? Thank you.

Frank D’Amelio - Pfizer Inc - CFO

First on efficiency is foreign exchange relative to the quarter, let me run the numbers. Which is, if you look at our total adjusted costs for the quarter, they were down, and this includes cost of goods sold, Si&A, and R&D, they were down $1.3 billion. So from $9.5 billion last year to $8.2 billion this year. Foreign exchange helped that by $440 million.

So if you take the $1.3 billion, subtract $440 million, you get roughly $850 million. That was down 8% operationally. If you also add back where, just for the Nexium payment that we made, that 8% becomes 11%, which is what Ian mentioned in his opening remarks. So in terms of foreign exchange to the bottom line, foreign exchange hurt the quarter by $0.02. And by the way, just in terms of rhythm of the numbers, if you look last year in Q3, it actually helped Q3 by 4% -- $0.04. So it was a $0.04 good guy last quarter, $0.02 bad guy this quarter.

In terms of the revenue guidance, the updated guidance is within the guidance that we provided for the year. We had said $58 billion to $60 billion. We tightened it this quarter, left the lower end of the range and lowered the top end of the range from $58 billion to $59 billion. That decrease, if
you look from midpoint to midpoint, is primarily driven by foreign exchange. You can't just look at the euro, which is typically what we do, and that's a big piece of our revenues. About 18% of our earnings are euro-denominated. But the yen and the Brazilian real have really been moving against us, quite frankly since the beginning of the year, the real more recently.

When we tighten the ranges, it has a more pronounced effect, which is why we lowered the range from $58 billion to $60 billion, to $58 billion to $59 billion. So the short answer is foreign exchange is the driver relative to our revenue guidance.

Ian Read  
* Pfizer Inc - Chairman, CEO*

With the euro being roughly 18% of our sales, the yen represents 10%, and the real represents 4%. So basically, while traditionally, people just look at the euro, you have got to look at that mix to model the impact to exchange on Pfizer. I'm going to ask Olivier to answer the question on Bapi, and then I'll ask Mikael Dolsten to add anything if he thinks that he wants to do that after Olivier's comments.

Olivier Brandicourt  
* Pfizer Inc - President and General Manager of Emerging Markets and Established Products*

We are currently closing up the Bapi program, as you know. We have not seen any evidence of clinical activity in any of the relevant sub-population we study. We reported the results earlier in October, and as we speak at the clinical trial AD meeting this weekend in Monte Carlo. And the only study which is remaining with Bapi is a sub-Q formulation study, which is called the SUMMIT AD.

It's actually fully enrolled at this point and we are expecting to see the results during the first quarter '13. I'd like to mention that it's only a biomarker study. It's not an efficacy or safety study at this point. The alliance is going to look up all the biomarker analysis we have, not only coming from what we have already, but an additional two products, ACC-001 and AAB-003.

That information will actually inform our future work regarding potential program will prodromal AD. With any of those candidates which we have in our pipeline. So we continue to believe in the beta-amyloid pathway and we are committed to research in AD and to that point I'd like to ask Mike to eventually -- to mention --

Ian Read  
* Pfizer Inc - Chairman, CEO*

Mikael, I would assume that anything you would say would be speculation, but go ahead.

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

Yes. I think Olivier summarized it in an excellent manner. We do continue, as many in the field, to believe that effective intervention with amyloid formation at an early stage of the disease is a valid way forward to explore. We have a broad AD pipeline with both disease-modifying and symptomatic approaches.

Let me mention our Sam-760, a 5-HT6 antagonist that has completed phase 1 and is considered for further studies. We have other ways to interfere with amyloid formation, such as BACE and Gamma secretase inhibitors in late pre-clinical, and as Olivier mentioned, we are assessing different antibody approaches to modulating beta-amyloid. And this reflects our continued interest to research in Alzheimer's disease.

Operator
Seamus Fernandez, Leerink Swann.
Seamus Fernandez - Leerink Swann & Company - Analyst

Can we get a little bit more color on how we should be thinking about the growth drivers of Prevnar 13, particularly in the pediatric indications going forward? What percentage of NIPs are now filled, given the fact that we are seeing this slowdown in the US?

As we think about some of the 2013 phase 3 catalysts, Mikael, maybe you could give us a little bit of your thoughts on the catalysts that you’re most focused on? I think historically, there’s been talk about, I guess the Inotuzumab products and for the antibody drug conjugate as well as dacomitinib on the Oncology side. Those are two that jump out at me.

Frank D’Amelio - Pfizer Inc - CFO

Okay, Geno, would you like to comment on the interplay between pediatric and adults, and then Mikael comment on the ’13.

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

I think with Prevnar pediatric, what were seeing now is primarily the effect of the success that we had with the catch-up opportunity where we added over $1 billion in value to the Company by taking full advantage of the catch-up opportunity when we introduced the 13 valant. Now, we are reaching a point where it is the base birth cohort that is driving the pediatric business.

We have very strong NIP performance across most of the developed world. We are still growing in Japan, and I think future growth for the pediatric business will come from growth in emerging markets, and in the markets where we haven’t introduce the 13 valant yet, which would include Japan and China. And in the US, you get a little bit from price each year, but it is, fundamentally, a strong base of business that think we can grow to some extent, but that – probably not dramatically in the developed markets.

The growth opportunity truly comes from the adult business. As you know, without the formal recommendations in place yet, the adult business is slow to develop. In the US, we have recently gotten an ACIP recommendation for immunocompromised patients, and CDC has indicated they will make Prevnar a recommended vaccine as part of the hospital quality measures.

These are things that will help bring attention to the use of the conjugate vaccine in the adult population. But we think the real lift, and the real big opportunity, for growth in the franchise comes when we have a broader set of recommendations from the major recommending bodies around the world, which will occur post-CAPITA.

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

Later on the line there are a couple of interesting conferences end of this year already starting with the ACR rheumatology conference, where we will have several abstracts on tofacitinib, including the ORAL START study on structure end-point in pre-methotrexate-treated patients. American Heart Association, we will have a P69 and also sub analysis from Eliquis studies.

I briefly mentioned San Antonio Breast Cancer Symposium in December. We would report the phase 2 data from CDK in advanced breast cancer. As you mentioned, dacomitinib, we will have two phase 3 studies that are expected to be presented at the conference in 2013. We will also show final analysis at the relevant medical conference in ’13 on Inlyta, and we will continue to generate important data on tofacitinib in psoriasis and, as John Young mentioned, AL-O2, our oxycodone abuse-deterrent compound.

Operator

Jeff Holford, Jefferies.
Jeff Holford - Jefferies & Company - Analyst

Firstly, can you just comment on your review regarding M&A opportunities out there? Does this authorization of new share repurchase program imply any view from you -- any change in view on the attractiveness of bolt-on opportunities in acquisitions that may or may not be out there? Secondly, the cost saving does appear to be running somewhat ahead of at least our expectations. I'm wondering if this is, from your point of view, just faster delivery than you may have originally anticipated? Or do you think you can go beyond what you have previously guided in terms of cost saving and efficiencies in the business? And just lastly, wonder if you can make some sort of comment about the tax rate beyond this year? It appears you may be seeing some structural mix changes in your tax rate. Can you talk a little bit about that in terms of the Q3 tax rate?

Ian Read - Pfizer Inc - Chairman, CEO

On the bolt-on opportunities, we don't see that the increased authorization for buybacks in any way diminishes our ability of M&A transactions if we find cases that can beat share back. Share buyback. And I'll ask Frank to talk about the cost savings and the tax rate.

Frank D’Amelio - Pfizer Inc - CFO

On the tax rate, we reiterated our guidance for the year, approximately 29%. Going forward, with all the uncertainty around tax reform, we should assume 29%. And the one thing I'll say is relative to tax reform, we support any tax reform that will enhance the global competitive of US companies that are operating internationally. But I think going forward, given the uncertainty around this, we'll continue to assume approximately 29%.

In terms of the cost savings, I think the way I'll answer this is almost in terms of what inning we're in relative to a baseball game. If you think about a nine-inning game, we are clearly not in the early innings. I don't think we're in the late innings. I think we are towards the end of the middle innings. So there's still opportunity. But clearly, the absolute size of the opportunity is the size of efforts isn't the size of what the opportunity was a few years ago given the billions of dollars we've already taken out of our cost structure.

Ian Read - Pfizer Inc - Chairman, CEO

I would say the changes going forward, the easy -- if it ever was easy, some of the targets -- some of the more obvious targets -- have already been taken care of. Now it's going to be cost reductions or increased efficiencies are going to be coming from exactly that, looking at business models and structure, and as Frank said, the targets that are available have been hit and taken care of. So with that, I think we'll move on.

Operator

Alex Arfaei, BMO.

Alex Arfaei - BMO Capital Markets - Analyst

First, Enbrel and other TNF seem to be a little weaker in Europe this quarter. We have heard about some cost-containment measures focused on TNF. To what extent do you see this as an opportunity for tofa as a potentially cheaper option and a similar efficacy? The follow up -- the Animal Health business was a little bit lighter operationally compared to what we have seen with some of your peers. Is there anything that was unique to this quarter that we should be aware of?

Chuck Triano - Pfizer Inc - SVP, IR

Geno, if you could do Enbrel, and Frank can - do Animal Health.
Geno Germano - Pfizer Inc - President & GM, Specialty Care and Oncology

Sure. I think that the TNF inhibitors, and, frankly, the whole pharmaceutical portfolio, has experienced some challenge with cost-containment measures in Europe. Our TNF business has been impacted more in the southern European countries than in the north. But there is some effect there. The volume growth remains fairly strong, so I think a place for TNF inhibitors is relatively secure. I think in terms of tofa, we will announce our pricing strategy once we have approval and we’re ready to introduce the product.

Frank D’Amelio - Pfizer Inc - CFO

On Animal Health, let me run the numbers and I’ll give a color commentary. So to your point, Alex, the quarter, year-to-date growth was 4%. But if you look on it on a year-to-date basis, the operating growth was 6%. So we’ll get some volatility quarter-to-quarter, but on a nine-month year-to-date basis, 6%. If you drill down a little bit, we see increased demand across the global livestock portfolio, increased demand across the companion animal portfolio, and increased demand at certain key geographies.

I think the watch items are clearly the drought in the US Midwest and Southwest, and just what’s going on in Europe, in particular, southern Europe relative to the economy. But net year-to-date basis, 6% operating growth, which we view as nice for that business.

Operator

Damien Conover, Morningstar.

Damien Conover - Morningstar - Analyst

Most of my questions have been asked, but just wanted to follow-up on the management of the cost structure. And continuing the baseball analogy, it depends when you start the analogy, but you look at towards the end of the middle innings, might suggest anywhere in the neighborhood of about $1 billion to $2 billion in annual cost savings still to be pulled out from Pfizer. Just wondering if you could characterize where that number fits in the scheme?

Also, when you look at managing the cost structure, are you largely balancing costs that could be saved from product losing exclusivity versus costs that will be needed to launch new products? Lastly, I was wondering if you could comment on the variable cost supporting Celebrex?

Ian Read - Pfizer Inc - Chairman, CEO

When we look at the -- at our costs, you obviously look at a company that has grown by acquisitions, which has allowed us to take out costs as we do the acquisitions. You look at our global position, and we carefully analyze what is our share of voice, what is our share of mind against our competitors. And we analyze that in the context of an industry that is in itself restructuring and faced with headwinds on pricing and access.

So that the spend you need to put in the marketplace depends to a large extent on the competitive set you’re against. We tend to look at the spending of our competitors and what we need to do to remain competitive as a benchmark. I want to be clear here that we are looking at our costs always with a view to remaining competitive in the marketplace. Frank, do you want to add anything to that?

Frank D’Amelio - Pfizer Inc - CFO

Maybe I’ll give a little sub-ledger detail relative to what I said relative to where we are and then some of the opportunities going forward. First, if you think about manufacturing, we’ve said -- I’ve said previously, we still have to give or take about 10 manufacturing facilities that we plan to exit over the next several years in the US, Puerto Rico, and Ireland. 10 manufacturing facilities. That obviously represents a significant opportunity.
We continue to streamline our corporate Center and enabling function services. We continue to believe there's additional opportunities there. And then we're looking at all of our functions, everything that we do, in terms of where there are there opportunities to be more efficient, more productive, we've been doing that. We'll continue to do that. But those are some of the opportunity areas relative to what we can do on a going-forward basis and why I said where we are relative to the continuum.

**Ian Read** - Pfizer Inc - Chairman, CEO

Yes, and we don't really release variable affixed costs on any individual products for competitive reasons.

**Operator**

Mark Urness, UBS.

**Mark Urness** - UBS - Analyst

Ian, in the past, you have talked about cost-cutting in Europe and how you're really focused on taking more costs out of Europe and changing the business model a little bit. I was wondering if you are prepared to talk about that a little bit? Second question is on gross margin. Once we eliminate these 10 plants and once we get through a couple more years of patent expiries -- what is the sustainable gross margin? Are we still around 80%?

**Ian Read** - Pfizer Inc - Chairman, CEO

Europe is -- the opportunities in Europe, of course, center around, as the European Union moves towards more centralized regulatory environment, what do you need to do on a country-by-country basis to maintain a commercially competitive organization. What do you need to do to maintain your marketing, your medical, and the infrastructure?

And if you compare Europe with the US, which is a lot simpler, because it's federal and it's one regulation. But as Europe moves towards that, and we tend to look at the treatment of Europe, while not identical but more similarly to a structure you have in the US. But I'll ask John Young if he wants to add anything to that as he's been managing -- previously managing Europe for some considerable time.

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

The only add I would give is obviously as we do in all of our regions with all of our businesses around the world, one of the things that we will continue to do is to make sure that we deploy our resources in line with the opportunity to generate revenue growth and value for shareholders.

That is something that we've been doing very actively, as you know, over the last three to four years. And in line with the continued evolution of the pipeline, we'll continue to deploy our resources appropriately in Europe to maximize our shareholder value as the portfolio continues to evolve.

**Ian Read** - Pfizer Inc - Chairman, CEO

Thank you. Frank, do you want to try to answer the gross margin question?

**Frank D'Amelio** - Pfizer Inc - CFO

I think clearly there will be downward pressure on our gross margin on a going-forward basis when you think about how the mix of our revenues is changing. But I think the thing to focus on is our operating margins. We can continue to generate cost-reduction and productivity improvements to keep that operating margin relatively constant on a going-forward basis.
Chuck Triano  - Pfizer Inc - SVP, IR

Thanks, Frank, and thank you, everybody for being flexible with the date change, and thanks for your time this morning.

Operator

Ladies and gentlemen, that does conclude today’s Pfizer’s third-quarter 2012 earnings conference call. You may now disconnect.