Pfizer Logo

PFIZER REPORTS SECOND-QUARTER 2014 RESULTS

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Second-Quarter 2014 Reported Revenues(1) of $12.8 Billion Second-Quarter 2014 Adjusted Diluted EPS(2) of $0.58, Reported Diluted EPS(1) of $0.45 Repurchased $2.9 Billion of Common Stock to Date in 2014 Reaffirmed 2014 Adjusted Diluted EPS(2) Guidance; Updated Certain Other 2014 Financial Guidance Components Expects to Complete U.S. Regulatory Submission for Palbociclib in Advanced Breast Cancer in August 2014

Pfizer Inc. (NYSE:PFE) reported financial results for second-quarter 2014. At the beginning of fiscal year 2014, the company began managing its commercial operations through a new global commercial structure consisting of three operating segments: the Global Innovative Pharmaceutical segment (GIP)[(3)]; the Global Vaccines, Oncology and Consumer Healthcare segment (VOC)[(3)]; and the Global Established Pharmaceutical segment (GEP)[(3)]. Financial results for each of these segments are presented in the *Operating Segment Information* section. As a result of the full disposition of Zoetis Inc. (Zoetis) on June 24, 2013, the financial results of the Animal Health business are reported as a discontinued operation in the consolidated statements of income for the second-quarter and first six months of 2013. Results are summarized below.

OVERALL RESULTS

($ in millions, except per share amounts)

	Second-Quarter			Six Months		
	2014	2013	Change	2014	2013	Change
Reported Revenues[(1)]	$ 12,773	$ 12,973	(2%)	$ 24,126	$ 25,383	(5%)
Adjusted Income[(2)]	3,769	4,003	(6%)	7,434	7,743	(4%)
Adjusted Diluted EPS[(2)]	0.58	0.56	4%	1.15	1.08	6%
Reported Net Income[(1)]	2,912	14,095	(79%)	5,241	16,845	(69%)
Reported Diluted EPS[(1)]	0.45	1.98	(77%)	0.81	2.34	(65%)

REVENUES

($ in millions)
Favorable/(Unfavorable)

	Second-Quarter				Six Months			
			% Change				% Change	
	2014	2013	Total	Oper.	2014	2013	Total	Oper.
GEP[3]	$ 6,513	$ 6,921	(6%)	(5%)	$ 12,503	$ 13,782	(9%)	(7%)
GIP[3]	3,547	3,726	(5%)	(5%)	6,623	7,032	(6%)	(5%)
Global Vaccines[3]	1,097	970	13%	14%	2,022	1,893	7%	9%
Consumer Healthcare[3]	912	800	14%	15%	1,673	1,611	4%	6%
Global Oncology[3]	570	493	16%	16%	1,058	949	11%	12%
Other[4]	134	63	*	*	247	116	*	*
Total	$ 12,773	$ 12,973	(2%)	(1%)	$ 24,126	$ 25,383	(5%)	(3%)

* Calculation not meaningful.

SELECTED TOTAL COMPANY ADJUSTED COSTS AND EXPENSES[2]

($ in millions)
(Favorable)/Unfavorable

	Second-Quarter				Six Months			
			% Change				% Change	
	2014	2013	Total	Oper.	2014	2013	Total	Oper.
Cost of Sales[2]	$ 2,320	$ 2,194	6%	6%	$ 4,306	$ 4,423	(3%)	—
Percent of Revenues[2]	18.3%	16.9%	N/A	N/A	17.9%	17.4%	N/A	N/A
SI&A Expenses[2]	3,486	3,550	(2%)	(1%)	6,506	6,728	(3%)	(2%)
R&D Expenses[2]	1,714	1,521	13%	13%	3,326	3,139	6%	6%
Total	$ 7,520	$ 7,265	4%	4%	$ 14,138	$ 14,290	(1%)	—
Effective Tax Rate[2]	27.9%	27.9%			26.5%	27.4%		

2014 FINANCIAL GUIDANCE(5)

Certain financial guidance components have been updated to reflect performance in the first six months of the year as well as the following factors:

- Adjusted Revenues(2): The expected negative impact from anticipated multi-source generic competition for Celebrex in the U.S. beginning in December 2014. In addition to the approximate one month of multi-source generic competition, Celebrex revenues also are expected to be negatively impacted in fourth-quarter 2014 by associated wholesaler and retailer destocking.
- Adjusted SI&A Expenses(2): The expected reduction in promotional spending for Celebrex in second-half 2014 attributable to the aforementioned anticipated multi-source generic competition in the U.S. beginning in December 2014.
- Adjusted R&D Expenses(2): The impact from the planned $80 million upfront payment to Cellectis SA (Cellectis) associated with the recently announced global strategic collaboration as well as higher expected expenses related to the planned acceleration of certain late-stage clinical programs, including palbociclib and bococizumab, among other programs.
- Adjusted Other (Income)/Deductions(2): The favorable impacts of lower expected net interest expense over the remainder of 2014 as well as gains realized in the first six months of 2014 on sales of product rights and of investments in equity securities, among various other factors.
- Reported Diluted EPS(1): The negative impact from charges related to certain legal matters, primarily related to Neurontin, incurred in first-quarter 2014.

Adjusted Revenues(2)	$48.7 to $50.7 billion *(previously $49.2 to $51.2 billion)*
Adjusted Cost of Sales(2) as a Percentage of Adjusted Revenues(2)	19.0% to 20.0%
Adjusted SI&A Expenses(2)	$13.3 to $14.3 billion *(previously $13.5 to $14.5 billion)*
Adjusted R&D Expenses(2)	$6.7 to $7.2 billion *(previously $6.4 to $6.9 billion)*
Adjusted Other (Income)/Deductions(2)	Approximately ($200 million) of income *(previously approx. $100 million of deductions)*
Effective Tax Rate on Adjusted Income(2)	Approximately 27.0%
Reported Diluted EPS(1)	$1.47 to $1.62 *(previously $1.57 to $1.72)*
Adjusted Diluted EPS(2)	$2.20 to $2.30

EXECUTIVE COMMENTARY

Ian Read, Chairman and Chief Executive Officer, stated, "I am pleased with our operating performance to date. Our recently launched products continued to gain traction during the quarter while our mid- and late-stage pipeline continued to progress with a regulatory submission in the U.S. completed for our meningitis B vaccine candidate and our palbociclib regulatory submission in the U.S. underway. We also look forward to the recently announced meeting in August of the U.S. Centers for Disease Control and Prevention's (CDC) Advisory Committee on Immunization Practices (ACIP) to evaluate and make a recommendation regarding usage of our Prevnar 13 vaccine in the adult population. In addition, we also announced targeted business development transactions within our Global Oncology[(3)] and GEP[(3)] businesses."

"I continue to see Pfizer as well positioned to effectively execute on our strategy to further strengthen each of our businesses on a global basis and deliver value to all of our stakeholders," Mr. Read concluded.

Frank D'Amelio, Chief Financial Officer, stated, "Overall, I am pleased with our second-quarter 2014 financial results despite the continued negative impact from product losses of exclusivity and the termination of certain co-promotion collaborations. We updated our 2014 adjusted revenue[(2)] guidance to reflect the anticipated negative impact associated with expected multi-source generic competition for Celebrex in the U.S. beginning in December 2014. Importantly, we reaffirmed our adjusted diluted EPS[(2)] guidance, absorbing an approximate $0.05 per share anticipated negative impact from this loss of exclusivity and an approximate $0.01 per share negative impact from the planned upfront payment to Cellectis, which reflects our financial flexibility and confidence in the business going forward. Given our strong operating cash flow, we continue to expect to repurchase approximately $5 billion of our shares this year, with $2.9 billion repurchased through July 28. These 2014 repurchases and planned repurchases are expected to reduce total shares outstanding by approximately 100 million shares by the end of the year after factoring in actual and projected dilution related to employee compensation programs."

QUARTERLY FINANCIAL HIGHLIGHTS (Second-Quarter 2014 vs. Second-Quarter 2013)

- Reported revenues[(1)] decreased $200 million, or 2%, which reflects an operational decline of $113 million, or 1%, and the unfavorable impact of foreign exchange of

– In June 2014, Pfizer announced that it submitted a Biologics License Application (BLA) to the FDA for rLP2086, the company's vaccine candidate for the prevention of invasive meningococcal disease caused by Neisseria meningitidis serogroup B in 10 to 25 year olds. The FDA has a 60-day filing review period from the date of the BLA submission to determine whether the BLA is complete and acceptable for filing. Pfizer will communicate the FDA's decision once available.

– Pfizer announced results from two Phase 2 studies of rLP2086. In both studies, rLP2086 was observed to generate bactericidal responses, a measurement of functional immune response, against diverse meningococcal serogroup B test strains following either two or three doses. Also, in the study evaluating co-administration of rLP2086 and a diphtheria, tetanus, pertussis and inactivated polio vaccine (dTaP-IPV), no impact was observed on the immune response to the dTaP-IPV vaccine. The most common local reaction observed in both studies was mild-to-moderate injection site pain; headache and fatigue were the most common systemic events in both studies. The data were presented at the 32nd Annual Meeting of the European Society for Paediatric Infectious Diseases (ESPID 2014).

Corporate Developments

- Pfizer announced on May 26, 2014 that it did not intend to make an offer for AstraZeneca. The announcement was made in accordance with Rule 2.8 of the U.K. City Code on Takeovers and Mergers (the "Code"). As a result of this announcement, Pfizer, together with any party acting in concert with Pfizer, is bound by the restrictions contained in Rule 2.8 of the Code.
- Pfizer and Cellectis announced that they have entered into a global strategic collaboration to develop Chimeric Antigen Receptor T-cell (CAR-T) immunotherapies in the field of oncology directed at select cellular surface antigen targets. Cellectis will receive an upfront payment of $80 million, as well as funding for research and development costs associated with Pfizer-selected targets and the four Cellectis-selected targets within the collaboration. Cellectis is eligible to receive development, regulatory and commercial milestone payments of up to $185 million per Pfizer product. Cellectis is also eligible to receive tiered royalties on net sales of any products that are commercialized by Pfizer. Additionally, Pfizer entered into an agreement to acquire approximately 10% of the Cellectis capital through the purchase of newly issued shares at 9.25 Euro per share, subject to approval by Cellectis' shareholders. In the event the sale of equity is not approved by the Cellectis shareholders, Pfizer has the option to terminate the collaboration agreement.
- Pfizer and InnoPharma, Inc. (InnoPharma), a privately held pharmaceutical development company, announced that they have entered into an agreement under which Pfizer will acquire InnoPharma. Under the terms of the agreement, Pfizer will acquire InnoPharma for an upfront cash payment of $225 million and up to $135 million of contingent milestone payments. InnoPharma's current portfolio includes 10 generic products approved by the FDA. InnoPharma also has a pipeline of 19 products filed with the FDA and more than 30 injectable and ophthalmic products under development. The closing of the transaction is subject to U.S. regulatory approval and is expected to occur during third-quarter 2014.

Please find Pfizer's press release and associated financial tables, including reconciliations of certain GAAP reported to non-GAAP adjusted information, at the following hyperlink:

http://www.pfizer.com/system/files/Q2_2014_PFE_Earnings_Press_Release_gpjte7kbxgpj4.pdf

(Note: If clicking on the above link does not open up a new web page, you may need to cut and paste the above URL into your browser's address bar.)

For additional details, see the associated financial schedules and product revenue tables attached to the press release located at the hyperlink referred to above and the attached disclosure notice.

(1) "Reported Revenues" is defined as revenues in accordance with U.S. generally accepted accounting principles (GAAP). "Reported Net Income" is defined as net income attributable to Pfizer Inc. in accordance with U.S. GAAP. "Reported Diluted EPS" is defined as reported diluted EPS attributable to Pfizer Inc. common shareholders in accordance with U.S. GAAP.

(2) "Adjusted Income" and its components and "Adjusted Diluted Earnings Per Share (EPS)" are defined as reported U.S. GAAP net income(1) and its components and reported diluted EPS(1) excluding purchase accounting adjustments, acquisition-related costs, discontinued operations and certain significant items. Adjusted Revenues, Adjusted Cost of Sales, Adjusted Selling, Informational and Administrative (SI&A) expenses, Adjusted Research and Development (R&D) expenses and Adjusted Other (Income)/Deductions are income statement line items prepared on the same basis as, and therefore components of, the overall adjusted income measure. As described under *Adjusted Income* in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of Pfizer's Quarterly Report on Form 10-Q for the fiscal quarter ended March 30, 2014, management uses adjusted income, among other factors, to set performance goals and to measure the performance of the overall company. We believe that investors' understanding of our performance is enhanced by disclosing this measure. See the accompanying reconciliations of certain GAAP reported to non-GAAP adjusted information for the second quarter and first six months of 2014 and 2013, as well as reconciliations of full-year 2014 guidance for adjusted income and adjusted diluted EPS to full-year 2014 guidance for reported net income(1) and reported diluted EPS(1). The adjusted income and its components and adjusted diluted EPS measures are not, and should not be viewed as, substitutes for U.S. GAAP net income and its components and diluted EPS.

(3) For a description of the revenues in each business, see the "Our Strategy—Commercial Operations" sub-section in the *Overview of Our Performance, Operating Environment, Strategy and Outlook*section of Pfizer's Quarterly Report on Form 10-Q for the fiscal quarter ended March 30, 2014.

(4) Other includes revenues generated from Pfizer CentreSource, our contract manufacturing and bulk pharmaceutical chemical sales organization, and also includes, in 2014, the revenues related to our transitional manufacturing and supply agreements with Zoetis.

(5) The 2014 financial guidance reflects the following:

- Does not assume the completion of any business development transactions not completed as of June 29, 2014, including any one-time upfront payments associated with such transactions, except for the planned $80 million upfront payment to Cellectis.
- Excludes the potential effects of the resolution of litigation-related matters not substantially resolved as of June 29, 2014.
- Exchange rates assumed are a blend of the actual exchange rates in effect through June 29, 2014 and the mid-July 2014 exchange rates for the remainder of the year.
- Assumes diluted weighted-average shares outstanding of approximately 6.4 billion shares.
- Revenues and cost of sales from the transitional manufacturing and supply agreements with Zoetis have been excluded from the applicable Adjusted components of the financial guidance.
- Reconciliation of the 2014 Adjusted Income(2) and Adjusted Diluted EPS(2) guidance to the 2014 Reported Net Income Attributable to Pfizer Inc. and Reported Diluted EPS Attributable to Pfizer Inc. common shareholders guidance:

($ in billions, except per share amounts)

Income/(Expense)	Net Income	Diluted EPS
Adjusted income/diluted EPS(2) guidance	$14.1 - $14.8	$2.20 - $2.30
Purchase accounting impacts of transactions completed as of June 29, 2014	(2.8)	(0.43)
Restructuring and implementation costs	(1.1) - (1.4)	(0.17) - (0.22)
Certain other items incurred through June 29, 2014	(0.6)	(0.09)
Discontinued operations	0.1	0.01
Reported net income attributable to Pfizer Inc./diluted EPS(1) guidance	$9.4 - $10.4	$1.47 - $1.62

DISCLOSURE NOTICE: The information contained in this earnings release and the attachments is as of July 29, 2014. We assume no obligation to update forward-looking statements contained in this earnings release and the attachments as a result of new information or future events or developments.

This earnings release and the attachments contain forward-looking statements about our future operating and financial performance, business plans and prospects, in-line products and product candidates, strategic reviews, capital allocation, business-development plans, and plans relating to share repurchases and dividends, among other things, that involve substantial risks and uncertainties. You can identify these statements by the fact that they use future dates or use words such as “will,” “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe,” “target,” “forecast,” “goal,” “objective,” “aim” and other words and terms of similar meaning. Among the factors that could cause actual results to differ materially from past results and future plans and projected future results are the following:

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