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PUDM 3409 B

7 March 2019

Financial Analysis: Pfizer

Introduction

The American corporation, Pfizer Inc., is one of the world's largest pharmaceutical companies. German-Americans, Charles Pfizer and his cousin Charles F. Erhart launched chemicals business in Brooklyn, New York. It was founded in 1849 and develops drugs and vaccines for a wide range of areas in the medical field such as immunology, oncology, cardiology, endocrinology, and neurology. They have produced some of the biggest products on the market. For example, Pfizer created Lipitor to lower blood cholesterol, Lyrica for fibromyalgia, and Viagra for erectile dysfunction. Over time, between 2000 and 2010, the company has grown through mergers with Warner–Lambert (2000), Pharmacia (2003), Wyeth (2009), and King Pharmaceuticals (2010). In addition, they also sold the consumer healthcare section to Johnson & Johnson. Most recently, however, on December 19, 2018, Pfizer announced a joint merger of their consumer healthcare division the British company GlaxoSmithKline who will maintain a controlling share. This will likely influence their 2019 financial statements because, if a company owns between 20% and 50% of another company, this is referred to as equity interest rather than consolidating statements. Having a minority interest means that in a balance sheet, the owner's equity is increased which in turn must increase assets due to the equation assets plus liabilities equals the owner's equity. In the income statement, the "other" income line includes any money made from a minority investment. Lastly, the cash flow doesn't change because while the income is increased, the money is tied up in investment. Only when the company liquidates can the cash flow show an increased income. However, this will not likely happen because of the agreement with the majority shareholder company. Pfizer has constantly released press statements on results and data from new drugs, clinical trials, approved drugs, and initiatives that will influence their income.

Financial Analysis

I. First, by looking at the overview of Pfizer's performance, operating environment, and strategic and outlook from the financial statement, there are four different types of financial highlights that indicate the development trend of Pfizer. According to the total revenues of 2017 and comparing it with the year before, it decreases 1% in billions, which means the company Pfizer's sales have decreased slightly, they have to find out what causes this phenomenon. Even though we analyzed data for just 1% decreasing, it is not a small problem since the unit is in billion and also it may affect the sales for the future. It reflects a slight net operational decrease of $20 million and an unfavorable impact of foreign exchange of $259 million. Compared to 2016, total revenues for 2017 were unfavorably impacted by approximately $200 million as a result of 2017 having one less selling day in both U.S. and international markets. However, for the other sides of the financial issue, they all demonstrate an increasing trend from 2016. It including the 2017 Net Cash Flow from Operations, 2017 reported diluted EPS and 2017 Adjusted Diluted EPS. From the net cash flow, we can see that the sum of net income is increasing and also shows the financial health for Prizer is positive. Then, considering the diluted EPS that it can be convertible securities are all outstanding convertible preferred shares, convertible debentures, stock options, and warrants. Since Pfizer has the market in the U.S., Europe, and Japan as international markets. Based on different products, it provides different data of the markets impacted and the revenues associated with it. Comparing it to the previous year, only the product called "Lyrica" presented the positive revenues in markets impacted. All the other nine products were given lower numbers of data showing most of the product revenues in the major European, U.S., and Japan market are decreasing. Also, by looking at the data of 2016 and comparing it to 2015, it also manifests the same appearance. Emerging markets revenues increased $979 million, in 2017 to $11.4 billion, reflecting an operational increase of $1.1 billion.

Foreign exchange had an unfavorable impact of approximately 2% on emerging markets revenues. The operational increase in emerging markets was primarily driven by their IH segment as well as their Legacy Established Products and Sterile Injectable Pharmaceuticals portfolios.

II. Merck & Co. as one of the main competitor of Pfizer who founded in the 19th century and is one of the largest pharmaceuticals companies in the world today. Thought several of its top 10 revenue producing products are considered specialty drugs since they cater to illnesses that are not widespread, at least one of its drugs directly competes with Pfizer. Since we have to look up the results of 2017 for Pfizer, so we have done the same year for Merck to implement a fair comparison of these two companies. By looking at the overview of Merck & Co., the results for the year are lower than what Pfizer had. It was about 12 million for the distance of their annual conclusion. From their financial report that I did not find as much information about the international market. At this point, it makes me think that Pfizer has its own advantage of having these big international markets which improving their sales in many different perspectives. Comparing to Merck that they are only focusing on smaller target markets which leads them to be not spread as Pfizer.

III. A *profitability ratio* is used by investors to measure and evaluate the ability of a company to generate income (profit). Pfizer Inc's gross profit margins capacity to make a profit indicates that a percentage of revenue available to cover operating and other expenditures. Pfizer Inc.'s gross profit improved from 2016 to 2017 and again from 2017 to 2018. Pfizer's operating profit margin improved from 2016 to 2017 and from 2017 to 2018. Their net profit margin improved again from 2016 to 2017 but slightly deteriorated from 2017 to 2018 not reaching the level that the incorporation was at in 2016.

A *current ratio* uses current assets and liabilities of 1 year or less. The current ratio for Pfizer Inc's current ratio for the quarter that ended in Sep. 2018 was 1.43 indicating that the Incorporation has good short-term financial strength. During the past 13 years, Pfizer Inc's highest Current ratio was 8.18 and the lowest was 0.98, the median was 1.49.

The *quick ratio* is an indicator of a company's short-term liquidity position and measures a company's ability to meet its short-term obligations. The quick ratio for Pfizer from June 30. 2009 - Oct 02. 2016. In the I. Quarter they were low at 0.42 but by Oct 16.2016 in Quarter IV, the ratio jumped up to 0.59. Their fourth Quarter Quick Ratio for the 2018 company rankings is Major Pharmaceutical Preparations Industry = #114, Healthcare sector = #269, and Overall Market = #1124.

An *asset-turnover Ratio* measures the efficiency of a company's use of its assets in gathering sales revenue or sales income to the company. A measure of efficiency. When analyzing Pfizer asset ratio insight I see that highest fixed turnover was on Dec 30. 2014 and was the lowest on Dec 09. 2009. Over the last twelve months today Pfizer fixed asset turnover is 3.9x.

Liquidity ratio, from the Melicher reading (pg.156), refers to how quickly a company can turn its assets into cash. The less liquid in a company, the higher the risk of deterioration. When debts are paid with cash, the companies flows determine solvency. I am able to determine a company's liquidity position by examining specific balance sheet items. Liquidity ratios indicate the ability to meet short- term obligations to creditors as they mature.

Pfizer Inc's current ratio improved from 2016 to 2017 and again from 2017-2018. Their quick ratio improved from 2016 to 2017 but then slightly deteriorated from 2017 to 2018 not reaching 2016 level and lastly their cash ratio improved from 2016 to 2017 but then slightly deteriorated from 2017 to 2018 not reaching 2016 level.

Financial-leverage ratio, from Melicher reading (pg.163), indicates the extent to which borrowed or debt funds are used to finance assets. To access the extent to which borrowed money or debt we used to finance assets, analytics use financial-leverage ratios. Pfizer's financial -leverage ratio has fluctuated over a span of its existence. Pfizer's latest twelve months Financial Leverage is 2.3x. this year. The lowest that they ever dropped. Pfizer's 2018 twelve months Financial Leverage is 2.3x.

IV. After analyzing several of Pfizer Inc's financial ratios, I concluded that the stock has risen. On 03/06/2017, the price of their stock was 34.1 and today the stock stays steady at 41.3. I sense that the price will stay around the same until the end of the year. I say this because, for the last six months, the stock has stayed between 40.93-41.5. I found this by tracking the movement of the stock on days that it either rose or dropped.

V. The footnotes in this financial report serve as a supplemental explanation of certain figures or conclusions drawn in the original report. The purpose of having these explanations as footnotes, rather than being contained in the original document is to maintain the general flow of the financial report while having additional information for those who need clarification. In short, they are produced for the sake of clarity in certain statistics and figures that could be misinterpreted. Though just “footnotes”, these small sections of text matter greatly. They are mostly read by financial analysts or highly motivated investors. They are used for gathering greater insight into the company's practices or future aspirations. Some examples from Pfizer Inc.’s report are as follows; “Certain amounts in our Financial Review may not add due to rounding. All percentages have been calculated using unrounded amounts. (1)” We see this as simply explaining how they rounded certain numbers, which could be relevant to the savvy analyst. Another example; “In January 2018, the EMA’s Committee for Medicinal Products for Human Use issued an opinion recommending that ertugliflozin be granted approval
for the treatment of type 2 diabetes. (32)” This footnote is referring to one of Pfizer’s proposed medications that are waiting to be approved by the EU. This footnote helps the financial analyst get the idea of the progress they have with releasing their drug, a representation of where their company is heading in the future.

VI. After looking at Pfizer’s assets, I noticed they have a large spending budget for Research and Development, at 7.9B annually. For a company based on medication and health, R&D is very important. R&D can lead them to discover more medications or treatment = more profit = more value to shareholders. In the year 2016, Pfizer ranked #4 in the industry for expenditure on research and development, securing them as a potential industry leader.

Conclusions

Having analysed the financial data provided by Pfizer, many points of conclusions can be drawn from it. Pfizer is an international organisation with grounds that date back to 1949, they have created revolutionary pharmaceuticals such as Lyrica, Lipitor and Viagra. The revenues from the closing year of 2017, saw a 1% decrease. It reflects a slight net operational decrease of $20 million and an unfavourable impact of foreign exchange of $259 million. Compared to 2016, total revenues for 2017 were unfavourably impacted by approximately $200 million as a result of 2017 having one less selling day in both U.S. and international markets. However, if you look at the rest of the financial data, it shows a favourable increase. This decrease in revenue might be due to several reasons some of them being the lack in pipeline splash for the company as they didn’t announce any revolutionary drug within the past year other than variations announced by their competitors this led to little excitement to investors.

Even though 1% might not sound like much, we have to take into consideration the scale of the company. This affected their profit in the billions of dollars. The position within the stock market hasn’t fluctuated, but rather continues to remain at a steady growth having a current value of 41.3.

Research and Development is one of the primary expenses that the company shows. Without this expense. The company’s revenue would fluctuate even more. R & D should be further supported in the upcoming years in order for Pfizer to increase profit and have a better closing year than 2017. There are reasons to believe that 2018 could be a better year for Pfizer. They could develop new drugs and even continue to show success for already existing pharmaceuticals.