

Corporate financial analysis of pfizer finance essay



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Pfizer, is the worlds largest research-based pharmaceutical company, founded in 1849. The company is headquartered in Midtown Manhattan, New York, with its research headquarters in Groton, Connecticut. Ian Read is the president and CEO of Pfizer. And other important officers are these following people. (Table 1)

The Company manages its operations through five segments: Primary Care; Specialty Care and Oncology; Established Products and Emerging Markets; Animal Health and Consumer Healthcare, and Nutrition. The Company's diversified global healthcare portfolio includes human and animal biologic, small molecule medicines and vaccines, as well as nutritional and consumer healthcare products. Pfizer produces many house hold famous medicine like Lipitor, Viagra and Celebrex.

Pfizer has 103, 700 employees and in No. 81 of Carbon Disclosure Rating. And here are some important data. (Table 2)In the highly competitive pharmaceutical industry, Pfizer has these main competitors: Ankur Drugs and Pharma Ltd. and Bayer.

1. 2 Analyst Coverage

1. 2. 1 Analyst Opinion

This table (1. 1) shows the analyst opinion to recommendation trends. We can see “ strong buy” and “ buy” both have a high score while the other three have a very low score. It suggests that investors to buy this stock but do not suggest long-term hold.

1. 2. 2 Analyst Estimate

Here these two tables show the analyst estimate on Pfizer. They are just a part of the analyst estimate. Earnings history (1. 2) shows that the difference between EPS Estimate and EPS actual is very small. So the estimate was quite accurate.

1. 2. 3 Price Target Summary

The recent stock price of PFE is about \$22. 56. This price is a little lower than the price target in table (1. 3). It does not mean it is not good. At least this price is higher than its low target. Pfizer's stock is not bad and still have chance to perform better.

1. 3 Analysis of Pfizer's financial statements

1. 3. 1 Balance Sheet Analysis

In general, the total amount of the assets of Pfizer decreased from 212. 949 million (in 2009) to 188. 002 million (in 2011). This may because Pfizer wanted to give up unattractive investments and focused on its innovation core.

Total liabilities decreased continuously. It indicates Pfizer's ability of repayment of debt was not bad. Current liabilities decreased 1. 98% from 2010 to 2011 and 23. 1% from 2009 to 2010. Changes of total liabilities were similar.

On stockholder's equity, its total number also decreased as the result of its decrease of total assets. Due to the decrease in total assets, the stockholder's equity decreased 6. 4% from 2011 to 2010 and 2. 4% from 2010 to 2009. (Graph 1)

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We can calculate Debt-Equity Ratio, Current Ratio, and Quick Ratio in 3 years. (Table 3) As we can see from the table 1, Pfizer's financial situation in 2011 was not bad.

1. 3. 2 Income Statement Analysis

In 2011, total revenue was 67. 425 million, a 0. 54% increase over 2010 and a 36. 85% increase over 2009. Operating income in 2011 was 12. 762 million and net income was 10. 009 million, both of them increased. Gross profit was not very obvious but we can find a sharp increase from 2009 to 2010. (Graph 2)

In 2011, ratio of gross profit and total revenue was 77. 63%. Operating expenses of total revenue proportion in three years were around 60%. It shows Pfizer's ability of controlling in operating expenses was better in 2010 and 2009. (Table 4)

Graph 3 shows that changes in gross margin, operating margin, net profit margin, ROA and ROE. The company's operating conditions were very stable. (Graph 3)

1. 3. 3 Cash Flow Analysis

Here is a table shows that three years cash flows of three kinds of activities. (Table 3)

In 2009, cash flows from operating activities were 16. 587 million and in 2010.

If investing activities can't bring enough money to make up cash outflows, cash flows from investing activities would be negative. In 2011, Pfizer's cash
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flows from investing activities were 2.2 million. Pfizer's investments were effective and they created a positive cash flow and can create profit. (Table 4)

Generally speaking, the larger the cash flows from financing activities the more pressure of debt the company will be faced with. We can see in 2010 and 2011, Pfizer's was under huge pressure. All in all, Pfizer has a good financial situation.

1.4 Summary of Pfizer's Challenges

2011 was generally a good year for Pfizer, Inc. Revenues increased 1%, Net income also had significant gains. However, the company still faces diverse challenges from many aspects, which can have a long term impact on Pfizer's performance.

U. S. Healthcare Legislation Enacted Since 2010

It brought two negative influences: 1. A \$648 million reduction to Revenues, related to higher, extended and expanded rebate provisions and the Medicare "coverage gap" discount provision. 2. An extra \$248 million expense in informational, sales and administrative, related to the fee payable charged by the federal government.

Loss of Expiration of Intellectual Property Rights

It can be an adverse factor and decline total revenues. When the patent protection has expired, Pfizer loses exclusivity on these products and generic pharmaceutical manufacturers can produce similar products and sell them for a lower price.

Problems in Productivity and Regulatory Environment

Pfizer devoted significant resources to research and development; these activities involve a high risk and may take many years to transfer research achievements into products. Besides, there is no assurance that the development of any particular product will achieve desired clinical success, be approved by regulators and commercially. If Pfizer failed, sunk costs lost, which can be a huge loss.

1. 4. 4 Pfizer is Under Pressures of Pricing and Access

Governments, healthcare organizations and other payer groups implement price controls and require price cuts in order to pay less in purchasing Pfizer's products. There were government regulated price reductions for certain products beginning in 2011. What's more, health insurance and social welfare plans continue to limit access to some of Pfizer's medicines by setting restrictions in the increased use of generics.

1. 4. 5 Challenges from Poor Macroeconomic Environment

We believe that with high unemployment rate and increases in co-pays, patients tend to buy generics, delay treatments, skip doses or use less effective treatments to reduce costs. During 2011, portions of the revenues are exposed to fluctuations in foreign exchange rate. Pfizer need to seek appropriate management in foreign exchange rate risk as it operates in multiple foreign currencies

2. Stock Price Analysis

2. 1 Track Pfizer's Stock Price in the Last 3 Years

2. 1. 1 2009(Graph 4)

We can find that the stock price continued going down from Jan. to Mar. However, it went up until the end of the year. Stock price in Mar is the lowest all the year and the stock price at the beginning of the year and the end of the year are almost the highest. The highest is nearly \$19, and the lowest is less than \$12.

2. 1. 2 2010(Graph 5)

The chart show us that the stock price in 2010. Generally speaking, the stock price went down from Jan to Jul. We can see the stock price in Jul is the lowest number throughout the year, and it was 14. 14 dollars per unit. After Jul, the stock price gradually rose. But between Aug and Sep, the stock price experienced a decline within a narrow range. This circumstance also happened between Nov and Dec. The highest price occurred in Jan, and it was 20. 00 dollars per unit.

2. 1. 3 2011(Graph 6)

It seems that the chart of 2011 was a little complex. From Jan to Jun the general momentum of the stock price was up though a few small declines. From Jun to Aug, the number experienced a decline by a large margin after Aug, the statistics generally rose up though some declines. The highest price was 21. 83 dollar per unit in Dec, and the lowest price was in Aug, and the number was 16. 66 dollar per unit.

2. 2 Calculate Stock Price of the Company

To calculate the stock price of the company, I will use the formula $EPS \times P/E = P$.

EPS= NI/ SO. I will calculate the stock price of the company in 2012. (Graph 7)

1. Highest and lowest PE Ratio in 2009 are 14.79 and 11.45, so the average ratio is 13.12.

2. The 2 ratios in 2010 are 23.52 and 13.58, so the average is 18.55.

3. The 2 ratios in 2011 are 19.34 and 12.28, so the average ratio is 15.81.

(Graph 8)

The EPS in 2009, 2010 and 2011 are 1.235, 1.205, 1.255.

According to $P = \text{EPS} \times \text{P/E}$, stock price in 2009, 2010, 2011 are $16.20 \frac{1}{4} \text{€}$, $22.35 \frac{1}{4} \text{€}$, 19.84 .

2.3 Assessment of the Current Stock Price

According to the Income statement, PFE has earnings per share of 1.27, the average P/E is 17.81, estimate a value of PFE using P/E as a valuation multiple.

Thus, $P = \$1.27 \times 17.81 = \22.6060B It assumes that PFE will have similar future risk.

Assuming NVS is comparable to PFE in term of its underlying business NVS has earnings per share of \$3.55, the average P/E is 15.39, under the same assumption, $P = \$3.55 \times 15.39 = \54.6345B .

Compare to the two major competitors, PFE share price is relatively low.

According to Income Statement, PFE has EBITDA of \$27.56B and has an

enterprise value to EBITDA multiple of \$6. 71, shares outstanding of 7. 54B and debt of \$38. 96B

Enterprise value would be $V = \$27.56B * 6.71 = \184.9276 , estimate PFE's share price:

$$P = (184.9276 - 38.96) / 7.54 = \$19.2361.$$

As this estimation is based on enterprise value, it is more reliable than the first one. It is overvalued obviously when its stock price being \$22. 66 per share.

Similarly, NVS has EBITDA of \$17. 05, enterprise value to EBITDA multiple of 8. 81, shares outstanding of \$2. 42 and debt of \$24. 59. NVS share price would be: $P = (17.05 * 8.81 - 24.59) / 2.42 = \51.9093

As Comparables only provide information regarding the value of a firm relative to other firms in the comparison set, using multiples will not help us determine if an entire industry is overvalued. According to the research, PFE share price is much less than NVS, I would suggest that PFE is relatively less deserving investment.

According to the Balance Sheet, dividend paid is \$6. 234. , it is easy to get the dividend paid annually: $Div = \$6.234 / 7.54 = \0.8268

The share price is \$22. 66, suppose investors hope the constant dividend growth model would based on a 4% growth rate, we would estimate a stock price of $P = 0.8268 / (0.4811 - 0.04) = \1.8744

We can calculate the growth rate: $g = r - \text{Div}/P = 0.4811 - 0.8268/22.66 = 1.16\%$.

Investors would feel disappointed if invest in PFE as the growth rate is relative lower than he/her expectations.

2.4 Value of Pfizer's Stock Price Compared with Competitors

From statistics online, we can know that the 52week range of Pfizer is 16.63-23.3, Roche's is 115.1-169.2, and Eli Lilly's is 33.75-42.03. Obviously, the stock price of Roche changes the most, the changed absolute amount of 54.1. A risk lover may prefer this kind of stock because it can change by a larger scale, and if we can seek this opportunity well, huge profits can be achieved.

Compared with Roche, Pfizer stock has a large advantage. The change scope of Pfizer stock is not big, which indicates that it is relatively stable, and a risk-averse may prefer this kind stock. The perceived benefit of any gain is outweighed by the perceived cost of an equivalent loss. Most people are risk-averse, so Pfizer stock has an excellent competitive advantage and suitable to hold for a long time.

Besides, to compare the value of the stock price, analyzing the P/E ratio is the most traditional method. Pfizer earned \$1.24 per share last year and the stock is trading at 22.38, so the stock has a P/E ratio of approximately 18.05-to-1. Similarly, the P/E ratio of Roche is 15.04, the P/E ratio of Eli Lilly and Company is 10.7. Generally, the lower the P/E ratio, the better value the stock represents. Thus, in this case Pfizer is less competitive than his competitor, Roche and Eli Lilly and Company.

2.5 Beta of Pfizer and Comparison with Its Competitors

The beta of Pfizer is 0.64, the beta of Roche is 0.66, and the beta of Eli Lilly and Company is 0.37. Beta is a risk index, can be used to measure fluctuation of one stock price relative to the whole stock market. The bigger the absolute amount, the larger the change of profit. The stock of Pfizer and its competitors, Roche and Eli Lilly and Company, all can be regarded as low risk stocks.

3. Summary

3.1 Major Developments of Pfizer during 1Q of 2012

During the 1st quarter of 2012, Pfizer's revenues were \$15.4 billion, a decline of 7% compared with \$16.5 billion in the year-ago quarter and the unfavorable impact of foreign exchange of \$57 million, or less than 1%.

Established products unit revenues increased 17% in comparison with prior year period, obviously driven by recent launches of generic versions of some products. Revenues of Lipitor were \$383 million, which made a great contribution to the company. In addition, revenues were positively influenced by the entry of multi-source generic competition in the U. S. Emerging markets unit revenues grew 9% due to continued demand growth in China, Russia and Mexico.

In animal health unit, revenues increased 6%, primarily due to the purchase of King Pharmaceuticals. Nutrition unit revenues gained 8%, created by making benefits from the launch of successful new products, increased marketing activities and overall strength in emerging markets, especially China.

Pfizer's first-quarter 2012 financial performance is pleased; however, it still faces fierce competition from other companies. Pfizer need to focus its problems in exclusivity and financial management.

3. 2 Summary of All We Have Learnt About Pfizer

Pfizer is better than others. It could be name recognition, innovation, market share or any other attributes that makes a company stand out from the herd. From what has been discussed, we may draw the conclusion that there are three ideas to contribute the success of Pfizer. Innovation creates success and being innovative in your business is one of the keys to being successful. Innovation is the introduction of new processes, new ways of doing things and revolutionizing how things have been accomplished previously.

The most surprising thing is Pfizer cannot research an influential drug independently in the past 10 years of 20 century. Although it invested huge amount of money in R & D, it seems more like a marketing company.

Throughout Pfizer's development in recent years, its success can be summed up that use the advantage of large-scale and well-capitalized to strengthen the ability in value chain in marketing. Through buying mature technology, products and combination new companies, building alliance with competitors to consolidate its market share. Giving full play to the enthusiasm of its medical representatives, integrating the advantages of its marketing network, and enhancing core competitiveness, thus achieve a leading position in the industry. In conclusion, Pfizer is a rare example of successful combination of R & D and marketing strategies in international pharmaceutical companies.

3.3 Should We Buy Pfizer's Stock or Not

Pfizer has a good ability in finance, improved control in operation. For big investors, I would recommend Pfizer, which requires low risk, stable growing dividends, and long term return. Despite Pfizer stock price is relative lower than its competitors, big investors can gain large amount of cash by purchasing large amount of shares.

However, I will not recommend Pfizer to retail investors. It would not be wise to invest in a company which may take years to transfer research investments into product profits. Higher return indicates higher risk; it would be too risky for retail investors to take the gamble. Quick money never stays too long.

Appendices

Table 1:

Table 2:

Table 3:

2011

2010

2009

Debt-Equity Ratio

0.563

0.550

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0. 577

Current Ratio

2. 057

2. 131

1. 657

Quick Ratio

1. 780

1. 842

1. 323

Table 4:

2011

2010

2009

Operating activities

20, 240, 000

11, 454, 000

16, 587, 000

Investing activities

2, 200, 000

(492, 000)

(31, 272, 000)

Financing activities

(20, 607, 000)

(11, 174, 000)

14, 481, 000

Graph 1:

Graph 2:

Graph 3:

Graph 4:

Graph 5:

Graph 6:

Graph 7:

Graph 8:

Tables:

(1. 1)

(1. 2)

(1. 3)