



Pfizer Inc. (PFE)

Updated January 30th, 2019 by Bob Ciura

Key Metrics

Current Price:	\$41	5 Year CAGR Estimate:	7.4%	Volatility Percentile:	9.3%
Fair Value Price:	\$39	5 Year Growth Estimate:	5.0%	Momentum Percentile:	83.0%
% Fair Value:	106%	5 Year Valuation Multiple Estimate:	-1.1%	Growth Percentile:	32.5%
Dividend Yield:	3.5%	5 Year Price Target	\$49	Valuation Percentile:	33.1%
Dividend Risk Score:	F	Retirement Suitability Score:	D	Total Return Percentile:	30.4%

Overview & Current Events

Pfizer was founded in 1849. Today, it is one of the largest pharmaceutical companies in the world with a market capitalization of \$238 billion. It researches and manufactures drugs for a variety of therapeutic areas. It has two core operating segments—Innovative Health (62% of 2018 revenue) and Essential Health (38% of 2018 revenue). The most common therapeutic areas for Pfizer are internal medicine, oncology, immunology, inflammation, and rare diseases. Pfizer's global portfolio is based mostly on biopharmaceuticals, but it also includes vaccines.

In late January (1/30/19), Pfizer released financial results for the 2018 fourth quarter and full-year. Revenue of \$14 billion increased 2% and surpassed analyst expectations by approximately \$80 million. Adjusted earnings-per-share of \$0.64 also beat analyst estimates by \$0.01 per share and increased 3% from the same quarter a year ago. The company's full-year results mimicked the fourth-quarter totals. Revenue of \$53.7 billion increased 2% year-over-year, while adjusted earnings-per-share of \$3.00 grew 13% from 2017. Pfizer's performance was split between its two major segments. Innovative Health revenue increased 6% for 2018, while Essential Health revenue declined 5% for the year on an operational basis.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$2.02	\$2.23	\$2.31	\$2.19	\$2.22	\$2.26	\$2.20	\$2.40	\$2.65	\$3.00	\$2.87	\$3.66
DPS	\$0.80	\$0.72	\$0.80	\$0.88	\$0.96	\$1.04	\$1.12	\$1.20	\$1.28	\$1.36	\$1.44	\$1.84
Shares	8070	8012	7575	7276	6399	6291	6175	6070	5979	5977	5975	5900

Pfizer's growth is the result of significant investments in its pipeline. Innovative Health growth last quarter was largely fueled by its flagship products Eliquis (up 31%), Xeljanz (up 37%), and Prevnar (up 13%). Going forward, Pfizer sees the potential for approximately 25-30 significant product approvals through 2022, of which up to 15 have the potential to be blockbusters. It expects seven of the 15 to receive approval by 2020. Pfizer has a very strong oncology portfolio. The company has 13 oncology products in Phase I of development, with another 4 in Phase II and 6 in Phase III.

That said, Pfizer gave a surprisingly downbeat forecast for 2019. As a result of heightened pipeline investments, Pfizer expects adjusted earnings to decline by approximately 4% at the midpoint of management guidance. In addition, performance is weakening in the Essential Health segment, which dragged down Pfizer's results in 2018. The company is challenged by patent expiration and pricing weakness in its legacy established products in developed markets. Still, we maintain a positive long-term view, given the company's strong pipeline. Over the next five years, we forecast earnings-per-share and dividends to grow at 5% each year.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	12.8	16.3	15.3	11.8	9.0	21.1	29.8	27.8	9.5	14.6	14.3	13.5
Avg. Yld.	4.5%	4.1%	3.7%	3.5%	3.1%	3.3%	3.5%	3.7%	3.5%	3.2%	3.5%	3.8%

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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The recent rise in Pfizer's share price has elevated the stock valuation above our estimate of fair value. We are expecting that the P/E will average around 13.5 going forward. This is a reasonable estimate of fair value in our view, because of Pfizer's strong business model and profitability, but inconsistent growth and weak guidance for 2019. As a result, shares appear modestly overvalued today. A declining stock valuation toward the fair value estimate would reduce annual returns by approximately 1.1% per year.

Safety, Quality, Competitive Advantage, & Recession Resiliency

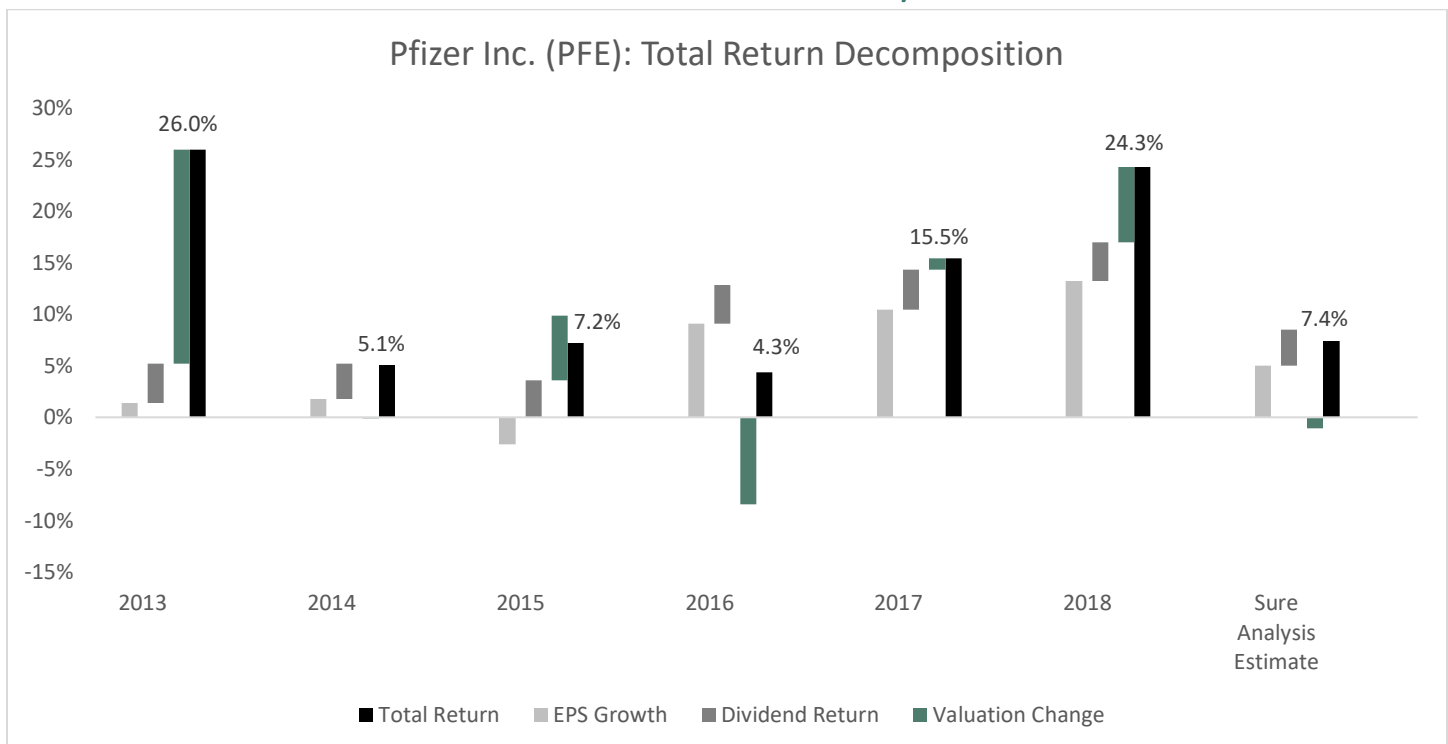
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	39.6%	32.3%	34.6%	40.2%	43.2%	40.6%	50.9%	50.0%	48.3%	46.1%	50.2%	50.2%

Pfizer scores very well across multiple safety and quality metrics. The company has a manageable debt level and strong interest coverage. Its dividend is sufficiently covered, with a payout ratio of 50%. This leaves plenty of room for Pfizer to continue raising its dividend each year moving forward. Pfizer also has significant competitive advantages, which provide a floor to earnings-per-share. Its competitive advantages are its robust product pipeline and patent portfolio, the direct result of high research and development spending. For example, Pfizer expects to invest \$7.8 billion to \$8.3 billion in R&D this year alone.

Final Thoughts & Recommendation

Pfizer stock has performed well over the past year, and while we no longer view the stock as undervalued, it can still provide positive shareholder returns. A projected earnings growth rate of 4%-6% annually is a reasonable baseline of expectations given Pfizer's strong pipeline. The stock also provides an above-average dividend yield of 3.5%, which makes it an attractive stock for income investors such as retirees. Pfizer's total returns—which include earnings growth and dividends, partially offset by valuation changes—are expected to reach 7.4% per year. This is a decent rate of return, but is only sufficient for Pfizer to earn a hold recommendation from Sure Dividend at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	48296	50009	65165	61035	54657	51584	49605	48851	52824	52546
Gross Profit	40184	41121	50377	48535	44836	41998	40028	39203	40495	41306
Gross Margin	83.2%	82.2%	77.3%	79.5%	82.0%	81.4%	80.7%	80.3%	76.7%	78.6%
SG&A Exp.	14537	14875	18973	17581	15171	14355	14097	14809	14837	14784
D&A Exp.	5090	4757	8399	9026	7655	6410	5537	5157	5757	6269
Operating Profit	11597	15719	16557	16808	17074	16366	13499	12976	13730	14107
Op. Margin	24.0%	31.4%	25.4%	27.5%	31.2%	31.7%	27.2%	26.6%	26.0%	26.8%
Net Profit	8104	8635	8257	10009	14570	22003	9135	6960	7215	21308
Net Margin	16.8%	17.3%	12.7%	16.4%	26.7%	42.7%	18.4%	14.2%	13.7%	40.6%
Free Cash Flow	16537	15382	9941	18358	15327	16219	15501	13192	13902	14253
Income Tax	1645	2197	1153	3621	2221	4306	3120	1990	1123	-9049

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets (\$B)	111.15	212.95	195.01	188.00	185.80	172.10	167.57	167.38	171.62	171.80
Cash & Equivalents	2122	1978	1735	3182	10081	2183	3343	3641	2595	1342
Acc. Receivable	8958	14645	14612	13058	10675	9357	8401	8176	8225	8221
Inventories	4381	12403	8405	6610	6076	6166	5663	7513	6783	7578
Goodwill (\$B)	39.19	110.39	101.51	95.75	88.81	81.90	77.24	88.60	107.10	104.69
Total Liab. (\$B)	53.41	122.50	106.75	105.38	104.12	95.48	95.94	102.38	111.78	100.14
Accounts Payable	1751	4370	4026	3678	2921	3234	3210	3620	4536	4656
Long-Term Debt	17283	48662	44033	38942	37460	36489	36682	38899	42085	43492
Total Equity	57483	89953	87761	82145	81221	76274	71272	64694	59520	71287
D/E Ratio	0.30	0.54	0.50	0.47	0.46	0.48	0.51	0.60	0.71	0.61

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	7.2%	5.3%	4.0%	5.2%	7.8%	12.3%	5.4%	4.2%	4.3%	12.4%
Return on Equity	13.2%	11.7%	9.3%	11.8%	17.8%	27.9%	12.4%	10.2%	11.6%	32.6%
ROIC	10.6%	8.1%	6.1%	7.9%	12.1%	18.9%	8.3%	6.6%	7.0%	19.6%
Shares Out.	6746	8070	8012	7575	7276	6399	6291	6175	6070	5979
Revenue/Share	7.16	7.10	8.07	7.76	7.28	7.48	7.72	7.81	8.58	8.67
FCF/Share	2.45	2.18	1.23	2.33	2.04	2.35	2.41	2.11	2.26	2.35

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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