



# Pfizer Inc. (PFE)

Updated August 5<sup>th</sup>, 2019 by Prakash Kolli

## Key Metrics

<b>Current Price:</b>	\$37	<b>5 Year CAGR Estimate:</b>	9.2%	<b>Volatility Percentile:</b>	8.5%
<b>Fair Value Price:</b>	\$38	<b>5 Year Growth Estimate:</b>	6.0%	<b>Momentum Percentile:</b>	37.5%
<b>% Fair Value:</b>	104%	<b>5 Year Valuation Multiple Estimate:</b>	-0.7%	<b>Growth Percentile:</b>	53.7%
<b>Dividend Yield:</b>	3.9%	<b>5 Year Price Target</b>	\$48	<b>Valuation Percentile:</b>	55.2%
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	D	<b>Total Return Percentile:</b>	56.9%

## Overview & Current Events

Pfizer Inc. is a global pharmaceutical company that focuses on prescription drugs and vaccines. Pfizer now reports in three business segments that are Pfizer Biopharmaceuticals Group or Biopharma, Upjohn, and Consumer Healthcare. Biopharma includes the old Innovative Health businesses as well as the new Hospital business unit and contract manufacturing, Pfizer CentreOne. Top products include Eliquis, Ibrance, Prevnar 13, Enebrel (international), Chantix, Sutent and Xeljanz. Upjohn sells off-patent branded and generic medicines including Lyrica, Lipitor, Norvasc, Viagra and Celebrex. Consumer Healthcare is the over-the-counter business. Pfizer has a new CEO who took the reins at start of 2019. The company had revenue of \$53.7B in 2018. The current market capitalization is ~\$205.3B.

Pfizer reported mixed Q2 2019 results on July 29, 2019. Companywide revenue declined 2% to \$13,264M from \$13,466M on a year-over-year basis. Diluted GAAP EPS grew 37% to \$0.89 from \$0.65 in comparable quarters. On and adjusted basis, diluted EPS grew 4% to \$0.80 from \$0.77 in comparable quarters. The company was impacted by 4% foreign exchange headwinds in the quarter. The Biopharma segment increased revenue 2% (6% constant currency) to \$9,595M in the quarter from \$9,434M in the prior year. Revenue growth was driven by 27% increase in Ibrance sales, 26% increase in Eliquis sales, and 36% increase in Xeljanz sales. Revenue from Xtandi and Inlyta also grew rapidly. This was offset by a 16% decline in Enbrel sales, 10% decrease in Prevnar 13 sales, and a 9% decline in Hospital sales due to generic competition. Upjohn's revenue declined 11% (7% decline constant currency) to \$2,807M from \$3,147M in comparable periods driven by lower sales in China, generic competition to Viagra, and destocking of Lyrica. Lyrica generic competition started on July 1, 2019. Consumer Healthcare revenue decreased 3% (increased 1% constant currency) to \$862M from \$886M on a year-over-year basis.

Pfizer signed a \$11B deal to acquire Array Biopharma that will add to the oncology portfolio, particularly skin cancer treatments. The acquisition is expected to close in the second half of 2019. The company also announced a Reverse Morris Trust transaction to combine the Upjohn segment with Mylan creating the largest generic drug company. This is on top of the formation of the Consumer Healthcare Joint Venture with GlaxoSmithKline plc.

*Note that adjusted earnings exclude acquisition related costs, discontinued operations, restructuring charges and net gains or losses in equity investments. We have changed to reporting diluted EPS (GAAP) in the table below.*

## Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>EPS</b>	\$1.23	\$1.03	\$1.11	\$1.26	\$1.65	\$1.41	\$1.11	\$1.17	\$1.73	\$1.87	<b>\$1.98</b>	<b>\$2.65</b>
<b>DPS</b>	\$0.80	\$0.72	\$0.80	\$0.88	\$0.96	\$1.04	\$1.12	\$1.20	\$1.28	\$1.36	<b>\$1.44</b>	<b>\$1.51</b>
<b>Shares</b>	8070	8012	7575	7276	6399	6291	6175	6070	5979	5717	<b>5660</b>	<b>5382</b>

Pfizer's current product line is expected to produce top and bottom line growth out to 2024. This is a result of the merger with Wyeth in 2009 and significant R&D. Prevnar13 (pneumococcal vaccine) was acquired in the Wyeth merger posted double-digit growth until recently. Similarly, Eliquis (cardiovascular), Ibrance (oncology) and Xlejanz (rheumatoid arthritis) are all posting double-digit growth. Growth will come from increasing U.S. and international sales for approved indications and extensions. On the other hand, growth is offset by patent expirations and generic competition. Notably,

*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.*



# Pfizer Inc. (PFE)

Updated August 5<sup>th</sup>, 2019 by Prakash Kolli

Viagra's patents expired in 2017 and Lyrica's patents expire in 2019 – 2020. Going forward Pfizer has a strong pipeline in oncology, inflammation & immunology and rare diseases. The company had five U.S. approvals and two European Commission approvals since April 30, 2019. We are expecting 6% EPS growth out to 2024. We have reduced our dividend growth rate to 1% due to the JV formation, spinoff of Upjohn, and the high current payout ratio of 72.6%.

## Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	12.8	16.3	16.3	18.4	17.6	21.5	30.3	28.1	19.7	21.1	<b>18.6</b>	<b>18.0</b>
Avg. Yld.	4.5%	4.1%	3.7%	3.5%	3.1%	3.3%	3.5%	3.7%	3.5%	3.2%	<b>3.9%</b>	<b>3.2%</b>

Pfizer's current stock price is slightly over our fair value estimate of \$36 based on expected 2019 earnings. We have reduced our multiple to 18.0 to account for lower 2019 revenue and adjusted diluted EPS guidance. This is slightly less than the 10-year average of 20.3. Our 5-year price target is \$48.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

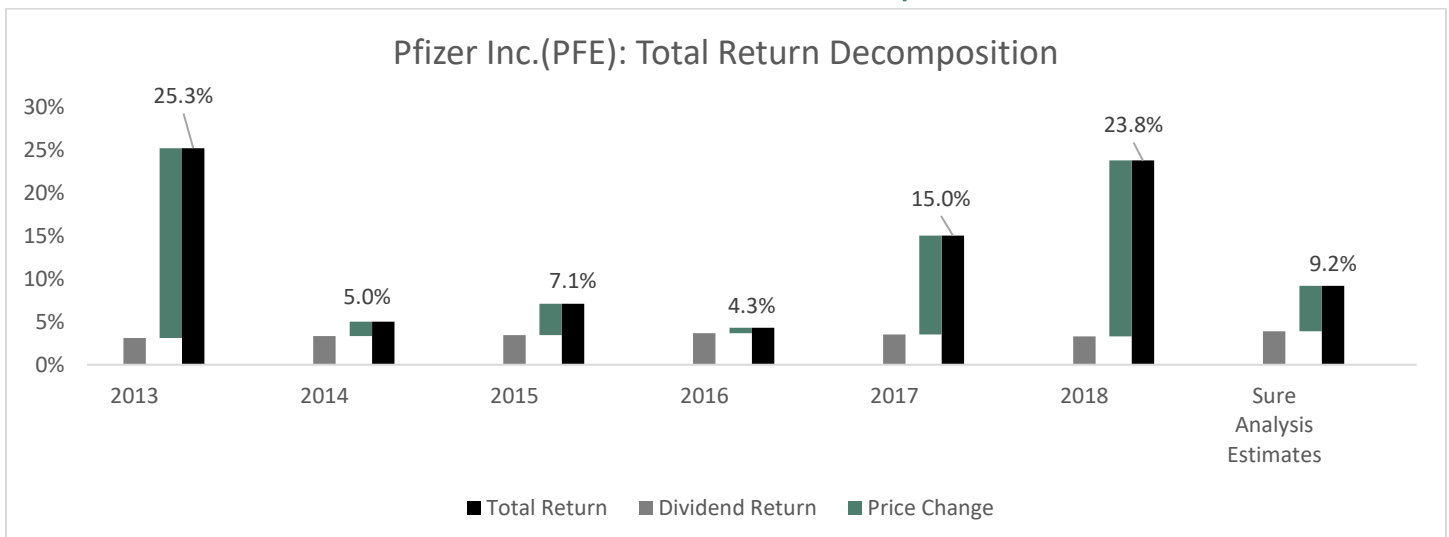
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	65.0%	69.9%	72.1%	69.8%	58.2%	73.8%	101%	103%	74.0%	72.7%	<b>72.6%</b>	<b>57.1%</b>

Pfizer is one of the largest pharmaceutical companies in the world. As such, it has scale in R&D, manufacturing, regulatory affairs, distribution and marketing around the world. This gives Pfizer the ability to bring new therapies to market, partner with smaller companies or acquire entire companies outright. The current pipeline is robust, and some will likely be blockbuster drugs even after attrition. Pfizer plans to invest \$7.8 billion to \$8.3 billion in R&D this year alone, an amount few companies can match, to develop new drugs. As a pharmaceutical company, Pfizer is thought to be recession resistant. But there are always the risks related to patent expiration, generics and regulatory approvals.

## Final Thoughts & Recommendation

At present we are forecasting 9.2% average annual return through 2024 up from our last report due to stock price declines. The return is comprised of 6.0% earnings growth, 3.9% dividend yield and -0.7% from multiple contraction. Pfizer currently provides an above market average dividend yield and is suitable for those seeking income. However, dividend growth may be limited in the near future. We currently rate Pfizer a hold for existing stock owners.

## Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.



# Pfizer Inc. (PFE)

Updated August 5<sup>th</sup>, 2019 by Prakash Kolli

## Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Revenue</b>	50009	65165	61035	54657	51584	49605	48851	52824	52546	53647
<b>Gross Profit</b>	41121	50377	48535	44836	41998	40028	39203	40502	41318	42399
<b>Gross Margin</b>	82.2%	77.3%	79.5%	82.0%	81.4%	80.7%	80.3%	76.7%	78.6%	79.0%
<b>SG&amp;A Exp.</b>	14875	18973	17581	15171	14355	14097	14809	14844	14804	14455
<b>D&amp;A Exp.</b>	4757	8399	9026	7655	6410	5537	5157	5757	6269	6384
<b>Operating Profit</b>	15719	16557	16808	17074	16366	13499	12976	13710	14073	15045
<b>Op. Margin</b>	31.4%	25.4%	27.5%	31.2%	31.7%	27.2%	26.6%	26.0%	26.8%	28.0%
<b>Net Profit</b>	8635	8257	10009	14570	22003	9135	6960	7215	21308	11153
<b>Net Margin</b>	17.3%	12.7%	16.4%	26.7%	42.7%	18.4%	14.2%	13.7%	40.6%	20.8%
<b>Free Cash Flow</b>	15382	9941	18358	15327	16219	15501	13192	14193	14585	13631
<b>Income Tax</b>	2197	1153	3621	2221	4306	3120	1990	1123	-9049	706

## Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Total Assets (\$B)</b>	212.9	195.0	188.0	185.8	172.1	167.6	167.4	171.6	171.8	159.4
<b>Cash &amp; Equivalents</b>	1978	1735	3182	10081	2183	3343	3641	2595	1342	1139
<b>Acc. Receivable</b>	14645	14612	13058	10675	9357	8401	8176	8225	8221	8025
<b>Inventories</b>	12403	8405	6610	6076	6166	5663	7513	6783	7578	7508
<b>Goodwill (\$B)</b>	110.4	101.5	95.8	88.8	81.9	77.2	88.6	107.1	104.7	88.6
<b>Total Liab. (\$B)</b>	122.5	106.7	105.4	104.1	95.5	95.9	102.4	111.8	100.1	95.7
<b>Accounts Payable</b>	4370	4026	3678	2921	3234	3210	3620	4536	4656	4674
<b>Long-Term Debt</b>	48662	44033	38942	37460	36489	36682	38899	42085	43492	41740
<b>Total Equity</b>	89953	87761	82145	81221	76274	71272	64694	59520	71287	63388
<b>D/E Ratio</b>	0.54	0.50	0.47	0.46	0.48	0.51	0.60	0.71	0.61	0.66

## Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Return on Assets</b>	5.3%	4.0%	5.2%	7.8%	12.3%	5.4%	4.2%	4.3%	12.4%	6.7%
<b>Return on Equity</b>	11.7%	9.3%	11.8%	17.8%	27.9%	12.4%	10.2%	11.6%	32.6%	16.6%
<b>ROIC</b>	8.1%	6.1%	7.9%	12.1%	18.9%	8.3%	6.6%	7.0%	19.6%	10.1%
<b>Shares Out.</b>	8070	8012	7575	7276	6399	6291	6175	6070	5979	5977
<b>Revenue/Share</b>	7.10	8.07	7.76	7.28	7.48	7.72	7.81	8.58	8.67	8.98
<b>FCF/Share</b>	2.18	1.23	2.33	2.04	2.35	2.41	2.11	2.30	2.41	2.28

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

### Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.