



Pfizer Inc. (PFE)

Updated March 9th, 2020 by Prakash Kolli

Key Metrics

Current Price:	\$34	5 Year CAGR Estimate:	15.3%	Market Cap:	\$187.3B
Fair Value Price:	\$46	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	01/30/2020
% Fair Value:	74%	5 Year Valuation Multiple Estimate:	6.2%	Dividend Payment Date:	03/06/2020
Dividend Yield:	4.5%	5 Year Price Target	\$61	Years Of Dividend Growth:	10
Dividend Risk Score:	X	Retirement Suitability Score:	X	Last Dividend Increase:	5.9%

Overview & Current Events

Pfizer Inc. is a global pharmaceutical company that focuses on prescription drugs and vaccines. Pfizer's new CEO completed a series of transactions in 2019 significantly altering the company structure and strategy. Pfizer formed the GSK Consumer Healthcare Joint Venture with GlaxoSmithKline plc, which will include Pfizer's over-the-counter business. Pfizer owns 32% of the JV. Pfizer also completed a \$11B deal acquiring Array BioPharma. The spinoff of the Upjohn segment was announced at the end of 2020. Top products include Eliquis, Ibrance, Plevnar 13, Enebrel (international), Chantix, Sutent, Xtandi, Vyndaqel, Inlyta, and Xeljanz. The company had revenue of \$51.8B in 2018.

Pfizer reported Q4 2019 and full year results on January 28, 2020. Companywide revenue declined (8%) to \$12,688M from \$13,976M and diluted GAAP EPS was (\$0.06) versus (\$0.07) on a year-over-year basis. On an adjusted basis, diluted EPS declined (13%) to \$0.55 from \$0.63 in comparable quarters. The Biopharma segment increased revenue 7% to \$10,532M in the quarter from \$9,820M in the prior year driven by 22% increase in Eliquis sales, 15% increase in Ibrance sales, 11% increase in Xeljanz, 29% increase in Xtandi, 249% increase in Inlyta, 8% increase in Hospital business, and the growth of Vyndaqel/Vyndamax. This was offset by a (18%) decline in Enbrel and (7%) decline in Plevnar 13. Upjohn's revenue declined (15%) to \$2,608M from \$3,075M in comparable periods primarily due to loss of exclusivity for Lyrica. Lyrica generic competition started on July 1, 2019. For the year, companywide revenue declined (4%) to \$51,750M from \$53,647M reflecting divestitures and loss of exclusivity for Lyrica.

The company will conduct a Reverse Morris Trust transaction to combine the Upjohn segment with Mylan N.V. creating the largest generic drug company. The new company will be named Viatris with Pfizer stockholders owning 57% and Mylan stockholders owning 43%. Viatris will sell off-patent branded and generic medicines including Lyrica, Lipitor, Norvasc, Viagra and Celebrex.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS¹	\$1.03	\$1.11	\$1.26	\$1.65	\$1.41	\$1.11	\$1.17	\$1.73	\$1.87	\$2.87	\$2.69	\$3.60
DPS	\$0.72	\$0.80	\$0.88	\$0.96	\$1.04	\$1.12	\$1.20	\$1.28	\$1.36	\$1.44	\$1.52	\$1.60
Shares²	8012	7575	7276	6399	6291	6175	6070	5979	5717	5660	5603	5329

Pfizer's current product line is expected to produce top line and bottom line growth out to 2025 as a result of the merger with Wyeth in 2009, significant R&D, and the acquisition of Array BioPharma. Currently, Eliquis (cardiovascular), Ibrance (oncology) and Xlejanz (rheumatoid arthritis) are all posting robust double-digit growth. New launches of Vyndaqel (transthyretin stabilizers) and Inlyta (renal cell carcinoma) are growing rapidly. 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 also competition for Enbrel and Plevnar 13. Going forward Pfizer has a strong pipeline in oncology, inflammation & immunology, and rare diseases. We are expecting 6% EPS growth out to 2025. We have reduced our dividend growth rate to 1% due to the spinoffs and higher debt.

¹ Diluted GAAP EPS.

² Share count in millions.

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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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	16.3	17.6	18.4	17.6	21.5	30.3	28.1	19.7	21.1	12.3	12.6	17.0
Avg. Yld.	4.3%	4.1%	3.8%	3.3%	3.4%	3.3%	3.7%	3.8%	3.5%	3.6%	4.5%	2.6%

Pfizer's stock price has dropped since our last report. It is now trading at an earnings multiple of 12.6 based on expected 2020 earnings, well below the trailing 10-year average. Our long-term fair value multiple is 17.0 discounting for uncertainties for R&D driven therapeutic development. The current fair value is \$46. Our 5-year price target is now \$61.

Safety, Quality, Competitive Advantage, & Recession Resiliency

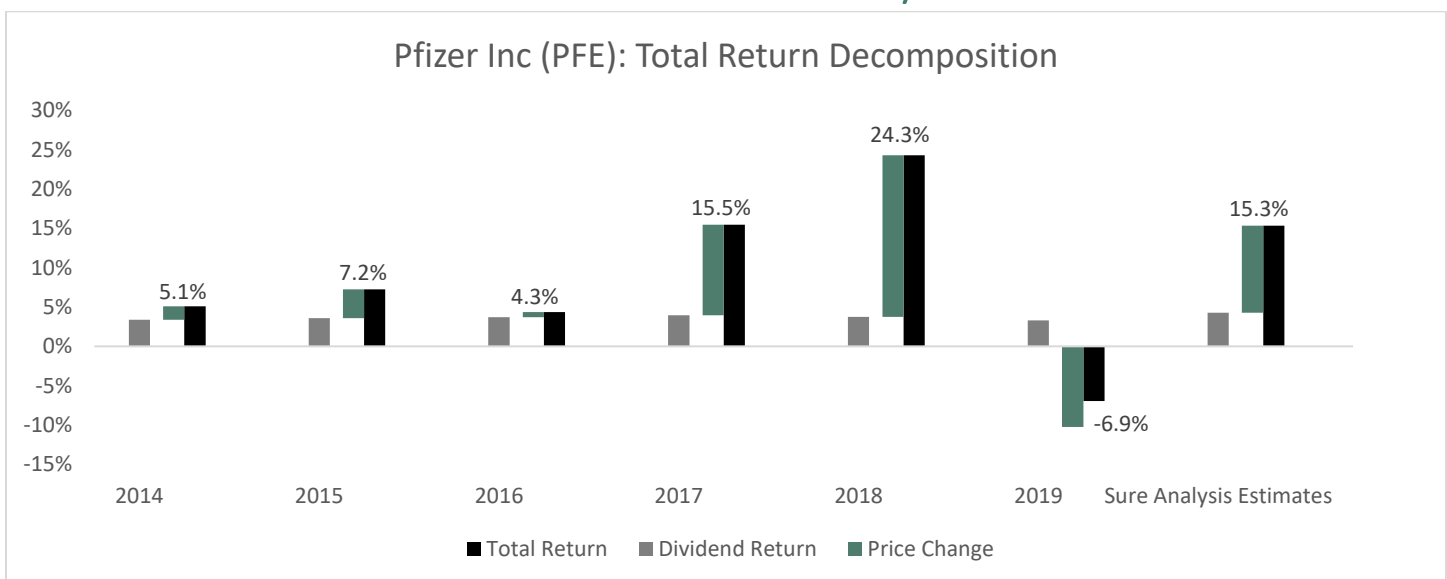
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	70%	72%	70%	58%	74%	101%	103%	74%	73%	50%	57%	44%

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 \$8.1 billion to \$8.5 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. Debt has increased due to acquisitions. Short-term debt is \$16,195M and long-term debt is \$35,955M offset by cash, equivalents, and marketable securities of \$9,830. Interest coverage is about 10X and leverage ratio is about 2X.

Final Thoughts & Recommendation

At present we are forecasting 15.3% average annual return through 2025 up from our last report. Pfizer currently provides an above market average dividend yield and is suitable for those seeking income. Pfizer will be a very different company by end of 2020. Its new strategy is to focus on R&D based prescription drugs and vaccines. At the current stock price, we rate Pfizer a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	65165	61035	54657	51584	49605	48851	52824	52546	53647	51750
Gross Profit	50377	48535	44836	41998	40028	39203	40502	41318	42399	41531
Gross Margin	77.3%	79.5%	82.0%	81.4%	80.7%	80.3%	76.7%	78.6%	79.0%	80.3%
SG&A Exp.	18973	17581	15171	14355	14097	14809	14844	14804	14455	14350
D&A Exp.	8399	9026	7655	6410	5537	5157	5757	6269	6384	6010
Operating Profit	16557	16808	17074	16366	13499	12976	13710	14073	15045	13921
Op. Margin	25.4%	27.5%	31.2%	31.7%	27.2%	26.6%	26.0%	26.8%	28.0%	26.9%
Net Profit	8257	10009	14570	22003	9135	6960	7215	21308	11153	16273
Net Margin	12.7%	16.4%	26.7%	42.7%	18.4%	14.2%	13.7%	40.6%	20.8%	31.4%
Free Cash Flow	9941	18358	15327	16219	15501	13192	14193	14585	13631	9994
Income Tax	1153	3621	2221	4306	3120	1990	1123	-9049	706	1384

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets (\$B)	195.0	188.0	185.8	172.1	167.6	167.4	171.6	171.8	159.4	167.5
Cash & Equivalents	1735	3182	10081	2183	3343	3641	2595	1342	1139	1305
Acc. Receivable	14612	13058	10675	9357	8401	8176	8225	8221	8025	8724
Inventories	8405	6610	6076	6166	5663	7513	6783	7578	7508	8283
Goodwill (\$B)	101.5	95.8	88.8	81.9	77.2	88.6	107.1	104.7	88.6	94022
Total Liab. (\$B)	106.7	105.4	104.1	95.5	95.9	102.4	111.8	100.1	95.7	104.0
Accounts Payable	4026	3678	2921	3234	3210	3620	4536	4656	4674	4220
Long-Term Debt	44033	38942	37460	36489	36682	38899	42085	43492	41740	52150
Total Equity	87761	82145	81221	76274	71272	64694	59520	71287	63388	63126
D/E Ratio	0.50	0.47	0.46	0.48	0.51	0.60	0.71	0.61	0.66	0.83

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	4.0%	5.2%	7.8%	12.3%	5.4%	4.2%	4.3%	12.4%	6.7%	10.0%
Return on Equity	9.3%	11.8%	17.8%	27.9%	12.4%	10.2%	11.6%	32.6%	16.6%	25.7%
ROIC	6.1%	7.9%	12.1%	18.9%	8.3%	6.6%	7.0%	19.6%	10.1%	14.7%
Shares Out.	8012	7575	7276	6399	6291	6175	6070	5979	5977	5675
Revenue/Share	8.07	7.76	7.28	7.48	7.72	7.81	8.58	8.67	8.98	9.12
FCF/Share	1.23	2.33	2.04	2.35	2.41	2.11	2.30	2.41	2.28	1.76

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

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