



# Pfizer Inc. (PFE)

Updated August 11<sup>th</sup>, 2023 by Prakash Kolli

## Key Metrics

|                             |      |  |      |                                  |           |
|-----------------------------|------|--|------|----------------------------------|-----------|
| <b>Current Price:</b>       | \$36 | <b>5 Year CAGR Estimate:</b>               | 9.2% | <b>Market Cap:</b>               | \$201.67B |
| <b>Fair Value Price:</b>    | \$37 | <b>5 Year Growth Estimate:</b>             | 5.0% | <b>Ex-Dividend Date:</b>         | 07/27/23  |
| <b>% Fair Value:</b>        | 97%  | <b>5 Year Valuation Multiple Estimate:</b> | 0.6% | <b>Dividend Payment Date:</b>    | 09/05/23  |
| <b>Dividend Yield:</b>      | 4.6% | <b>5 Year Price Target</b>                 | \$47 | <b>Years Of Dividend Growth:</b> | 14        |
| <b>Dividend Risk Score:</b> | D    | <b>Retirement Suitability Score:</b>       | C    | <b>Rating:</b>                   | Hold      |

## Overview & Current Events

Pfizer Inc. is a global pharmaceutical company focusing on prescription drugs and vaccines. Pfizer's CEO completed a series of transactions significantly altering the company structure and strategy. Pfizer formed the GSK Consumer Healthcare Joint Venture in 2019 with GlaxoSmithKline plc, which includes Pfizer's over-the-counter business. Pfizer owns 32% of the JV. Pfizer spun off its Upjohn segment and merged it with Mylan forming Viartis for its off patent, branded and generic medicines in 2020. Pfizer's top products are Eliquis, Ibrance, Prevnar, Enebrele (international), Sutent, Xtandi, Vyndaqel/ Vyndamax, Inlyta, Xeljanz, Plaxlovid, and Comirant. Pfizer had revenue of \$100.3B in 2022.

Pfizer reported Q2 2023 results on August 1<sup>st</sup>, 2023. Companywide revenue fell (-53%) to \$12,734M from \$27,742M and adjusted diluted earnings per share dropped (-67%) to \$0.67 versus \$2.04 on a year-over-year basis because of declining COVID-19 vaccine and anti-viral drug sales. Diluted GAAP earnings per share fell (-77%) to \$0.41 from \$1.73 in comparable quarters. Total sales increased for Vyndaqel/ Vyndamax (+42%), Xeljanz (+9%), Xtandi (+5%), Lobrena (+58%), and Eliquis (+1%). This was offset by declines in Sulperazon (-15%), Bosulif (-2%), Prevnar (-3%), Inlyta (-3%), Zirabev (-23%), Xalkori (-27%), Enebrele (-15%), Inflectra (-46%), Gentropin (-19%), Zithromax (-18%), and Ibrance (-6%). Chantix sales are suspended. Nurtec/Vydura, and Oxbryta are growing rapidly after their acquisition.

The COVID-19 vaccine (Comirnaty) and the anti-viral drug (Paxlovid) declined to ~\$1.6 billion in revenue. We expect this to decrease through 2023 due to lower usage. But since 2021 the company has used its COVID cash flow to acquire companies like Trillium for its cancer drug candidates, Arena for its autoimmune candidate, ReViral for its RSV programs, biohaven for its CGRP assets (migraines), GBT for its sickle cell disease treatments, and Seagen for its ADC technology.

Pfizer updated revenue guidance at \$67B - \$70B and adjusted diluted EPS guidance to \$3.25 - \$3.45 for 2023.

## Growth on a Per-Share Basis

| Year                      | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   | 2022   | 2023          | 2028          |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| <b>EPS<sup>1</sup></b>    | \$2.22 | \$2.26 | \$2.20 | \$2.40 | \$2.65 | \$3.00 | \$2.95 | \$2.22 | \$4.42 | \$6.58 | <b>\$3.35</b> | <b>\$4.28</b> |
| <b>DPS</b>                | \$0.96 | \$1.04 | \$1.12 | \$1.20 | \$1.28 | \$1.36 | \$1.44 | \$1.52 | \$1.56 | \$1.60 | <b>\$1.64</b> | <b>\$1.72</b> |
| <b>Shares<sup>2</sup></b> | 6399   | 6291   | 6175   | 6070   | 5979   | 5717   | 5534   | 5567   | 5620   | 5616   | <b>5560</b>   | <b>5287</b>   |

Pfizer's current product line is expected to produce top line and bottom-line growth out to 2028 because of significant R&D and acquisitions. As a result, Pfizer's current product line is growing, offset by declines from COVID-related therapies. Future growth will come from increasing sales for approved indications, extensions, R&D, and bolt-on acquisitions. Pfizer has a strong pipeline in oncology, inflammation & immunology, rare diseases, and vaccines with 19 potential launches in the second half of 2023. However, loss of exclusivity (LOE) in Eliquis, Ibrance, and other drugs will cause a headwind between 2025 and 2028. We are expecting 5% earnings per share growth out to 2028 (besides the COVID-19 vaccine and anti-viral therapies). We have reduced our dividend growth rate to 1% due to the spinoffs and higher debt. Pfizer did not repurchase shares in 2020 – 2021 and bought back \$2B in 2022. We do not expect share repurchases in 2023. The company's focus is on pipeline development, partnerships, and acquisitions.

<sup>1</sup> Adjusted diluted earnings per share.

<sup>2</sup> 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      | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Now  | 2028 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/E  | 13.8 | 13.8 | 14.7 | 13.5 | 13.7 | 14.6 | 13.3 | 29.5 | 10.7 | 9.5  | 10.7 | 11.0 |
| Avg. Yld. | 3.3% | 3.4% | 3.3% | 3.7% | 3.8% | 3.5% | 3.6% | 4.1% | 3.7% | 3.2% | 4.6% | 3.7% |

Pfizer's stock price is down since our last report. We have maintained our earnings estimate for 2023 at the mid-point of guidance. Our fair value multiple is now 11X, accounting for risks to an R&D pharma company and lower COVID-19 vaccine and anti-viral revenue. But Pfizer's business is performing well with new drug approvals and a robust pipeline. The current fair value is now \$37. Our 5-year price target is now \$47.

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

| Year   | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 46%  | 51%  | 50%  | 48%  | 45%  | 49%  | 68%  | 35%  | 24%  | 24%  | 49%  | 40%  |

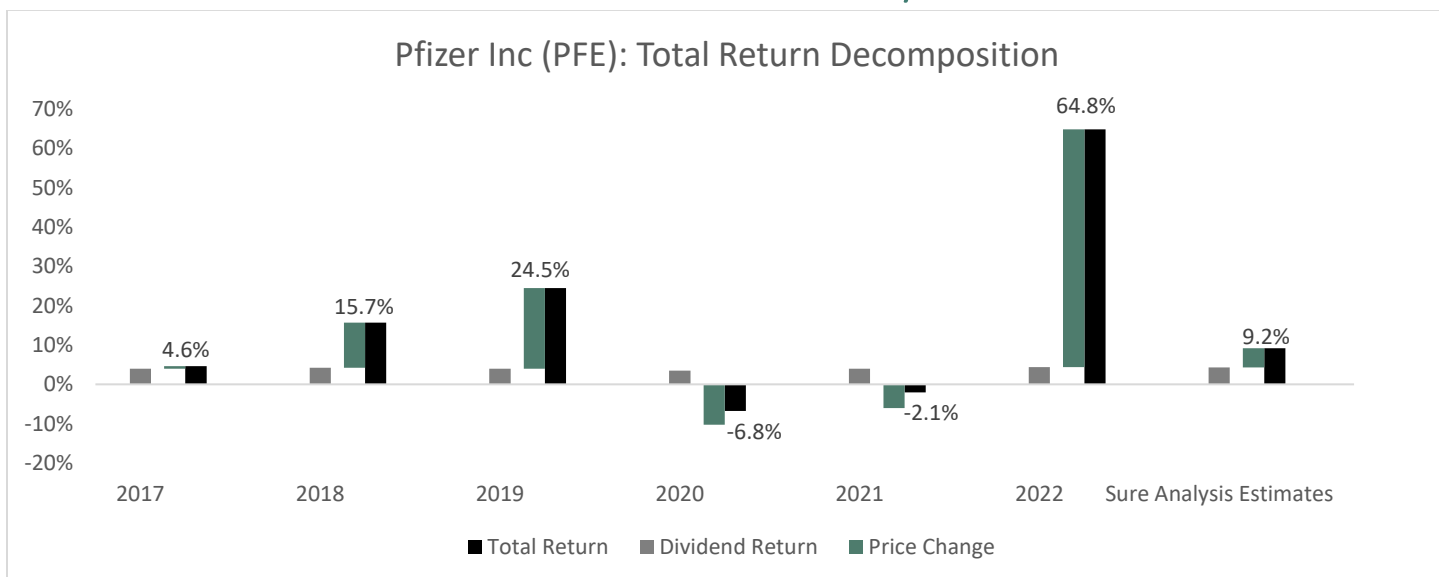
Pfizer is one of the largest pharmaceutical companies in the world. As such, it has scale in R&D, manufacturing, regulatory affairs, distribution, and marketing around the world. This gives Pfizer the ability to bring new therapies to market, partner with smaller companies, or acquire entire companies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

Debt increased due to acquisitions, but Pfizer used \$12B from the Upjohn spinoff to pay down debt. Short-term and current long-term debt are \$4,188M and long-term debt is \$31,704M offset by cash, equivalents, and marketable securities of \$19,972M at end of Q1 2023. Interest coverage is about 17.6X, and leverage ratio is down to 0.50X.

## Final Thoughts & Recommendation

At present we are forecasting 9.2% average annualized total return through 2028 from a dividend yield of 4.6%, 5.0% EPS growth, and 0.6% P/E multiple contraction. COVID-related revenue will decline in 2023. But Pfizer smartly increased R&D and acquisitions with the cash flow, bolstering its pipeline. Investors may find this high-quality stock appealing and the company is flush with cash. We have maintained Pfizer's rating at a hold.

## Total Return Breakdown by Year



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## Income Statement Metrics

| Year             | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022   |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|
| Revenue          | 51584 | 49605 | 48851 | 52824 | 52546 | 53647 | 51750 | 41908 | 81288 | 100330 |
| Gross Profit     | 41998 | 40028 | 39203 | 40502 | 41318 | 42399 | 41531 | 33216 | 50467 | 65986  |
| Gross Margin     | 81.4% | 80.7% | 80.3% | 76.7% | 78.6% | 79.0% | 80.3% | 79.3% | 62.1% | 65.8%  |
| SG&A Exp.        | 14355 | 14097 | 14809 | 14844 | 14804 | 14455 | 14350 | 11615 | 12703 | 13677  |
| D&A Exp.         | 6410  | 5537  | 5157  | 5757  | 6269  | 6384  | 6010  | 4777  | 5191  | 5064   |
| Operating Profit | 16366 | 13499 | 12976 | 13710 | 14073 | 15045 | 13921 | 8760  | 20235 | 37272  |
| Op. Margin       | 31.7% | 27.2% | 26.6% | 26.0% | 26.8% | 28.0% | 26.9% | 20.9% | 24.9% | 37.1%  |
| Net Profit       | 22003 | 9135  | 6960  | 7215  | 21308 | 11153 | 16273 | 9616  | 21979 | 31372  |
| Net Margin       | 42.7% | 18.4% | 14.2% | 13.7% | 40.6% | 20.8% | 31.4% | 22.9% | 27.0% | 31.3%  |
| Free Cash Flow   | 16219 | 15501 | 13192 | 14193 | 14585 | 13631 | 9994  | 11612 | 29869 | 26031  |
| Income Tax       | 4306  | 3120  | 1990  | 1123  | -9049 | 706   | 1384  | 477   | 1852  | 3328   |

## Balance Sheet Metrics

| Year               | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  |
|--------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Total Assets (\$B) | 172.1 | 167.6 | 167.4 | 171.6 | 171.8 | 159.4 | 167.5 | 154.2 | 181.5 | 197.2 |
| Cash & Equivalents | 2183  | 3343  | 3641  | 2595  | 1342  | 1139  | 1305  | 1784  | 1944  | 416   |
| Acc. Receivable    | 9357  | 8401  | 8176  | 8225  | 8221  | 8025  | 8724  | 7930  | 11479 | 10952 |
| Inventories        | 6166  | 5663  | 7513  | 6783  | 7578  | 7508  | 8283  | 8046  | 9059  | 8981  |
| Goodwill (\$B)     | 81.9  | 77.2  | 88.6  | 107.1 | 104.7 | 88.6  | 94.0  | 78.0  | 74.4  | 94.7  |
| Total Liab. (\$B)  | 95.5  | 95.9  | 102.4 | 111.8 | 100.1 | 95.7  | 104.0 | 907.6 | 104.0 | 101.3 |
| Accounts Payable   | 3234  | 3210  | 3620  | 4536  | 4656  | 4674  | 4220  | 4309  | 5578  | 6809  |
| Long-Term Debt     | 36489 | 36682 | 38899 | 42085 | 43492 | 41740 | 52150 | 38274 | 36998 | 34870 |
| Total Equity       | 76274 | 71272 | 64694 | 59520 | 71287 | 63388 | 63126 | 63238 | 77201 | 95661 |
| D/E Ratio          | 0.48  | 0.51  | 0.60  | 0.71  | 0.61  | 0.66  | 0.83  | 0.61  | 0.48  | 0.36  |

## Profitability & Per Share Metrics

| Year             | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Return on Assets | 12.3% | 5.4%  | 4.2%  | 4.3%  | 12.4% | 6.7%  | 10.0% | 6.0%  | 13.1% | 16.6% |
| Return on Equity | 27.9% | 12.4% | 10.2% | 11.6% | 32.6% | 16.6% | 25.7% | 15.2% | 31.3% | 36.3% |
| ROIC             | 18.9% | 8.3%  | 6.6%  | 7.0%  | 19.6% | 10.1% | 14.7% | 8.9%  | 20.3% | 25.6% |
| Shares Out.      | 6399  | 6291  | 6175  | 6070  | 5979  | 5977  | 5675  | 5479  | 5708  | 5733  |
| Revenue/Share    | 7.48  | 7.72  | 7.81  | 8.58  | 8.67  | 8.98  | 9.12  | 7.44  | 14.2  | 17.5  |
| FCF/Share        | 2.35  | 2.41  | 2.11  | 2.30  | 2.41  | 2.28  | 1.76  | 2.06  | 5.23  | 4.54  |

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

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