Financial Management Risk and Legal Risks Analysis: Take Pfizer as an Example

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Abstract. With the continuous growth of the global biotechnology and vaccine industry, more and more companies are joining in. Risk assessment in the field of biopharmaceuticals has drawn the attention of the whole society. There are lots of factors such as market competition, government intervention, cost increases, product safety, and breaking laws and rules, resulting in an increase in the company's financial risk. Facing these challenges, this research is based on overall analysis and searching for company data, by adopting the company's financial risk management calculation method to compare the selected companies, such as market risk-return rate, market risk-free return rate, weighted average capital cost, and so on. This research has found that Pfizer has a higher risk compared to other companies but the challenges and opportunities coexist by raising legal awareness, improving management measures, and other means to reduce risks. Its future development prospects are still considerable. The following is a multidimensional financial risk analysis of Pfizer Company.

Keywords: Business risk, risk prevention, financial risk management.

1. Introduction

The US federal government has released The Federal Bioeconomy Landscape: Opportunities Related to Biotechnology, Synthetic Biology, and Engineering Biology, prioritizing the bioeconomy as a Policy Area, and clear strategic goals for promoting the growth of the bioeconomy. The article mentioned that the US economy is worth over 950 billion US dollars, accounting for over 5% of the US gross domestic product. This exceeds the contribution of the construction industry, equivalent to the contribution of the information industry. This is also sufficient to reflect the important position of the biopharmaceutical industry in economic development and emphasizes that biotechnology is one of the emerging technologies for maintaining economic development and leadership in the United States, so it is necessary to reasonably evaluate the company's risks and promptly identify the reasons for the risks and take improvement measures [1]. After three years of the COVID-19 epidemic, it has entered the post-pandemic era. In biotechnology pharmaceuticals, the vaccine industry has received global attention. How to maximize the safety of vaccines, lower production costs, enhance one's core competitiveness, bring more benefits to people, receive government support, reduce risk of production, and speed the process of innovation has become the most concerned topic among all sectors of society at present. This study utilized relevant professional models for analysis. However, more companies constantly pursue how to generate huge profits. When facing the bottleneck period of corporate profits, they do not know how to solve it correctly, but may instead borrow more debt to increase investment and increase profits. In fact, industry researchers should focus on company risk analysis, strengthen management of areas where risks arise, and minimize existing risks as much as possible. The purpose of this study is to analyze the formation of financial risk, the factors that generate financial risk, and the problems faced, which may be internal factors, external factors, or legal-related issues. It will also propose measures that enterprises can take to minimize these risks to the greatest extent, such as improving systems, and business models, expanding markets, and strengthening legal awareness. Therefore, this study also highlights the impact of financial risk management on companies and the close connection between law and accounting finance.

2. The Basic Situation of the Company

Pfizer develops and produces medicines and vaccines for a range of medical disciplines, including immunology, oncology, cardiology, endocrinology and neurology. Pfizer is one of the largest pharmaceutical companies in the world by revenue. It is well-known throughout the world and provides a variety of goods. Pfizer forecasted 2020 sales of above $41 billion. Pfizer offers a wide range of pharmaceutical items, such as prescription medications and vaccines. It is well-known for the COVID-19 vaccine that was created in partnership with BioNTech. Pfizer makes significant investments in research and development (R&D) and has a strong pipeline of innovative medicines and treatments. It's been known to find effective medicines in the past.

3. Financial Risk Analysis of the Company

3.1. Financial Risk Analysis

Financial risk refers to the financial activities of a company. Various unpredictable or controllable factors cause financial uncertainty, giving the enterprise the possibility of suffering losses. Based on the main links and controllability of financial activities, financial risks can be divided into liquidity risk, credit risk, fundraising risk, investment risk, etc. The concept of financial risk can also be broadly defined as a crisis caused by internal reasons and the combined impact of the external environment within the enterprise. Financial risks also come from multiple sources such as enterprise investment, operation, cash flow, business decision-making, management decision-making, employee quality, legal awareness, etc. This research promotes the use of precision calculations such as the following aspects of data to determine company risks. Among them, researchers emphasize that the stock return rate is an important basis [2].

This research focuses on Pfizer, the calculation is shown in Table 1.

Table 1. Nine risk assessment indicators

Beta A	0.96
RA	13.14%
RF	4.5%
Beta	0.54
Beta i	10.66%
Rm-rf	9.01%
Re	7.67%
Rd	3.45%
Wacc	6.96%

3.2. Factors Contributing to the Formation of Financial Risks in the Company

3.2.1. Internal factors

Pfizer has low efficiency in drug development and slow drug update speed. It is easy to be overtaken by emerging biotechnology companies in the same industry. For example, Merck is currently researching the latest generation of pneumonia vaccines. Secondly, employees' risk awareness and legal awareness need to be strengthened. Although Pfizer's senior management has certain abilities, there is a lack of introduction of legal-related talents. Thirdly, the company's liquidity needs to be improved and the company's management mechanism needs further improvement in trade receivable and credit sales ratio.

3.2.2. Risks brought by corporate debt structure and solvency

Table 2. Seven indicators related to debt repayment ability

Total Debt/Equity	66.14
Total Debt/Capital	39.81
LT Debt/Equity	62.11
LT Debt/Total Capital	37.39
Total Liabilities/Total Assets	54.90
Current Ratio	2.12
Quick Ratio	1.68

Maozhu Jin studied the application of data mining technology in financial risk analysis in his article Application of Data Mining Technology in Financial Risk Analysis, Relevant research has also been conducted taking into account aspects such as solvency, profitability, and liquidity [3].

In the financing process, the scientific nature of debt scale and structure is very important. Improper selection of debt scale and structure not only affects the financing cost of the entire financing process but also leads to the company's own financial problems, thereby increasing the company's financial risk [4]. As can be shown in Table 2, the total Debit/equity ratio is 66.14, which is higher than the safe range. It means that solvency is not good, its risk is high. Pfizer's debt repayment speed is relatively slow, and the proportion of liabilities to assets is relatively high, which increases the financial risk of the company due to debt structure issues. The solvency of a company is an important indicator of its financial condition and operational ability. The low debt-paying ability of enterprises not only indicates a tight financial situation for the enterprise and difficulty in paying daily operating expenses but also indicates that the company's capital turnover is not flexible, difficult in repaying debts due and payable, and even facing the risk of bankruptcy The liabilities of a company include long-term liabilities and current liabilities. The ability of a company to repay its current liabilities is determined by the liquidity of its current assets. Except for monetary funds liquid assets with strong liquidity include securities, notes receivable, and accounts receivable. If the amount of monetary funds and liquid assets with strong liquidity is basically consistent with the number of current liabilities, or the former is greater than the latter, it indicates that the enterprise is solvent. If the latter is greater than the former, it reflects the poor solvency of the enterprise. In addition, the solvency of a company is still affected by factors such as unused bank loan limits, goodwill, guarantees, and long-term assets to be sold. The ability of a company to repay long-term liabilities depends on the ratio of liabilities to total assets on one hand. On the other hand, it depends on the profitability of the enterprise. Strong profitability and total assets greater than total liabilities means having the ability to repay debts.

3.2.3. Risks brought about by incorrect behavior of company managers or top executives

Due to the pandemic, Pfizer has reduced costs through layoffs and reduced employee training expenses, which greatly reduces the company's core research and development capabilities as well as its emphasis on financial rigor and law. Auditors also evaluate the auditing company from a cost perspective to help identify company risks [5]. In addition, there are instances of misjudgment in decision-making when encountering new problems, resulting in a lack of strategic development vision for the company. The policy has different predictions on the impact of board structure on corporate performance [6]. Active management refers to the behavior of professional investment managers or teams actively tracking the performance of investment portfolios and making buying and selling decisions, which is a highly diversified source of active risk. Li used 189 Chinese financial listed companies from 2009 to 2013 as research samples, established indicators to evaluate the proactive risk management behavior of financial enterprises, and further explored the relationship between proactive risk management and company value [7]. Management should actively track investments and make reasonable buying and selling actions to reduce risks

3.2.4. Enterprise risks brought about by external factors

The government aims to increase financial revenue, apply pressure on the enterprise, and demand a significant price reduction for enterprise products. Therefore, it increases the cost and burden of the enterprise, increasing enterprise risk. Parvaneh Saeidi used the local least squares structural equation modeling method for data analysis and hypothesis testing. The moderating effect of information technology dimensions such as information technology strategy and information technology structure [8]. Jairaj Gupta stated that small and medium-sized enterprises listed on stock exchanges are more likely to obtain financing than unlisted small and medium-sized enterprises and reduce information asymmetry [9].

4. Legal Issues and Corresponding Measures

Pfizer has faced some legal challenges in recent years. Firstly, there has been the phenomenon of beautifying financial statements, such as underestimating liabilities, expenses, and losses, overestimating assets, income, and profits, violating the principle of prudence, and even engaging in accounting fraud. Secondly, in order to expand the market, the company has engaged in bribery behavior that damages the company's image, such as bribing relevant departments in the region to expand certain markets. Thirdly, there is a phenomenon of inadequate implementation in product supervision. In response to the above issues, Pfizer is also continuously promoting corporate legal construction, especially by adding skilled two-way professionals in finance, law, and management, who can provide professional legal awareness when enterprises face risks, making the company compliant and achieving higher profits. An early warning model for measuring credit risks in technology enterprises can identify the factors that affect the company's performance. Furthermore, it helps enterprises to provide early or timely warning and management of risks [10]. At the same time, a risk warning system should be established [11].

Conduct a rigorous review of the contract. Contracts are the most important carrier in the development process of enterprises, so enterprises need to strictly review contracts, including the review of contract types, specific content, signing process, and other aspects. For contracts with legal risks, enterprises should promptly stop or adjust their support for them. Protect the intellectual property rights of enterprises. The intellectual property of a company is an important resource for its sustainable development. Enterprises should pay attention to the protection of intellectual property and strengthen the protection of trade secrets and intellectual property during the contract signing process to prevent the leakage of important technology or trade secrets as well as establish a response mechanism. Enterprises need to develop corresponding response mechanisms for different types of legal risks, timely identify and respond to various legal issues, and avoid long-term financial losses caused by legal issues. In a fiercely competitive market environment, in order for enterprises to maintain sustained and stable development, they must balance financial and legal risks. For enterprises, establishing a sound corporate governance structure, establishing a sound financial management system and a legal management system. It is very important for long-term development. With the development of the market, financial and legal risk management will increasingly become important areas of enterprise competitiveness. Only by continuously improving their own risk management mechanisms can they achieve better development opportunities in competition.

With the past pandemic era, Pfizer has to pursue globalization and diversification. And it will enhance clinical and doctor-patient interaction, which is the best way to solve it. Firstly, diversification of our drug portfolio is paramount. We must continually invest in research and development to expand our range of pharmaceuticals. By offering a wide array of drugs to treat various medical conditions, we can reduce the risks associated with depending on a single product or market. This not only safeguards our business but also ensures that we can better serve the diverse healthcare needs of our global population.

Secondly, our global presence is a strength we must leverage. We operate a vast manufacturing network across multiple countries, allowing us to produce drugs in various locations worldwide. This network acts as a buffer against supply chain disruptions, local regulatory changes, or geopolitical instability in specific regions. If one facility faces challenges, others can step in to maintain a steady supply of essential medications. It's a strategy that promotes resilience and reliability.

Thirdly, our commitment to research and innovation is unwavering. We envision establishing research centers worldwide that attract top scientists and researchers from around the globe. These centers will be dedicated to innovation and the development of new drugs and treatment methods, ensuring that we stay at the forefront of medical advancements. Additionally, we are harnessing the power of digitization and data analytics, incorporating state-of-the-art technologies like big data analysis, artificial intelligence, and machine learning into our research and development process to expedite progress and enhance our capabilities.

Lastly, market diversification is essential to our stability. Our global presence means we must serve diverse markets across the world. This diversity reduces our reliance on any single market, ensuring that we are not overly vulnerable to economic downturns or changes in healthcare policies in one country. By spreading our reach globally, we minimize revenue risks and strengthen our resilience to market fluctuations.

5. Conclusion

This study analyzes Pfizer from a financial risk perspective, focusing on exploring the current situation of the company, the reasons for the risks, solutions, and development prospects. Through searching various literature and conducting actual news surveys, it was found that these factors do indeed affect the company's risk situation. Therefore, if a company encounters profit or debt repayment problems, it can be analyzed from the perspective of financial risks to further explore the reasons for these risks. Entrepreneurs should also pay more attention to the combination of law and morality, where morality begins is where law ends. Future researchers or companies can test and accumulate experience based on the viewpoints proposed above to further consider the factors that need to be considered.

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