Assessing the Financial Stability & Investment Potential of Pfizer Inc.

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Abstract. Pfizer Inc., one of the world’s leading pharmaceutical companies, its performance of the pharmaceutical industry is currently under the spotlight as the market leader in the area, especially in light of the impact of the COVID-19 epidemic starting at the end of 2019. Based on the financial reports and performance status of Pfizer Inc., and its competitors’ (AstraZeneca, Merck Pharmaceuticals, and AbbVie) performances in the last two years, important changes in accounting policy, performance evaluation, and overall future strategic development of Pfizer are analyzed and evaluated. As a company that keeps paying more attention to biopharmaceuticals and acquisition, analysis regarding R&D, restructuring charges and risk management will be highlighted. At the same time, comparing Pfizer with the other three companies, analyzing their strengths and weaknesses, and forecasting Pfizer’s 2023 development and total stock market capitalization is of great importance. For Pfizer, 2023 will be a turning point and critical year that will determine future product development and total sales performance in the 2023 financial year.

Keywords: Pharmaceutical industry, financial performance, investment potential.

1. Introduction

Founded in 1849 and headquartered in New York, Pfizer Inc., one of the famous biopharmaceutical companies, offers prescription drugs and vaccines in many fields such as oncology, vaccines, and rare diseases. As the size of the COVID-19 pandemic became apparent, Pfizer set out to study the Pfizer-BioNTech COVID-19 vaccine and have the largest sales of this product at $37 billion in 2022. Meanwhile, in the global market, Pfizer’s main revenue comes from the United States (42%), Japan (8%), and other countries, as Figure 1 shows [1]. Pfizer has adopted a number of strategies to secure the company’s share and position in the current market. As a biological company, Pfizer is committed to developing new drugs and has made R&D a hallmark of its strategy. Also, since 2010, Pfizer has undertaken a program of mergers, acquisitions, and restructuring, such as Pharmacia [2].

Fig. 1 Revenue of Pfizer by country [1]
Two recent news items about Pfizer could change the direction and trends going forward and could even change the structure of Pfizer's revenue streams. The first and most important change is that sales of its COVID-19 vaccine and therapeutics have fallen more than expected as the covid-19 epidemic has taken a turn for the better, and the CEO says 2023 is a critical year for Pfizer, which will therefore look for opportunities in markets outside North America [3]. The second recent news item is unfavorable and has had a negative impact on Pfizer. In January of this year, Pfizer faced allegations related to the company's functional access and directed evolution research, which were promptly responded to by Pfizer but were still questioned by academics [4]. Pfizer aims to generate $25 billion in new revenue through external transactions by 2030. To mitigate the impact of projected declines in vaccine sales in the coming 2023, the company may choose to invest more than $2.5 billion to expand European manufacturing [5]. Also, Pfizer is currently focused on building a more efficient R&D engine while acquiring Global Blood Therapeutics Inc and Biohaven to strengthen its future pipeline.

2. Accounting Analysis

Pfizer recently released its preliminary results for 2022. Accounting policies are analyzed based on the 2021 annual report and adjusted for any changes in accounting policies in the 2022 preliminary results [1, 4]. The four areas of revenue recognition, R&D, goodwill and restructuring charges, and other costs require a higher degree of management judgment or significant estimates. Accordingly, Pfizer has identified them as critical accounting policies in both 2021 and 2022. Pfizer's contemporaneous competitors: AstraZeneca, Merck & Co, and AbbVie, whose data will also be mentioned as well as compared.

2.1. Revenue Recognition

Pfizer's sales will be about $81 billion in 2021 and about $100 billion in 2022, much higher than its competitors [1]. Due to the diversity and complexity of the products, the number of sales of the corresponding products in the income statement is crucial. The number of sales also influences investors' decisions: for example, discontinued operations and net income attributable to common shareholders, which are also measured by investors. In case of incorrect bookkeeping or inconsistent use of criteria, the overall valuation of the company will suffer, and investors will lose. Therefore, Pfizer must exercise significant judgment in revenue measurement and recognition.

Similar to its competitors, revenue is recognized when control of the goods or services promised by Pfizer is transferred to the company's customers, while both are similar in the degree of accuracy in revenue recognition. The difference, however, is that when recording revenue from product sales, Pfizer generally determines the transfer of control based on when the product is shipped or delivered, and the title is transferred to the customer. Pfizer's revenue recognition accounting policy appears to be reasonable and requires significant judgment and estimates because of the different products.

2.2. Goodwill

When Pfizer does its accounting, it includes a significant amount of intangible assets, including IPR&D and goodwill, in its consolidated balance sheet. Pfizer performs an annual impairment test on goodwill, which has not been impaired as of December 31, 2022, and the company believes the current risk of impairment is not significant because the fair value of each reporting unit is significantly higher than its respective net book value. Again, these complex calculations require the use of estimates and significant management judgment [1]. For the year ending December 31, 2021, goodwill was around $50 billion.

In addition, the amortization of intangible assets decreased by $91 million for the year ended December 31, 2022, primarily due to the lower amortization of the Comminate sales milestone to BioNTech [1]. The decrease in amortization of intangible assets had an impact due to Pfizer's $31 billion for the year 2022 [1]. Like AbbVie, also identifies goodwill as one of its key accounting
policies and the accounting policy is similar to Pfizer's. However, for Merck & Co there is a more flexible policy: if there is an indication of impairment then it is evaluated more frequently secondly, for its impairment test, the company uses a method of estimating future cash flows, which allows a more precise valuation in terms of capital use, expense growth rate, etc. Therefore, the annual impairment of Pfizer's goodwill requires more accurate estimates and management judgment.

2.3. R&D

As a company whose main business is biopharmaceuticals, Pfizer places great emphasis on research and development. Investment in R&D increased year by year from 2019 onwards and reached a peak in the last year with an amount of around 14 billion [1]. Compared with AstraZeneca, which spent 10 billion on R&D, Pfizer spent around 1.5 times more and Merck & Co only spent 3 billion on that [6, 7]. Like competitors, R&D costs are expensed as they are incurred, at the same time, before a compound receives regulatory approval, recorded upfront, and milestone payments made to third parties under licensing arrangements as an expense. However, Pfizer has also partnered with AbbVie, Biogen, MIT, and Harvard University to provide access to the world's largest browsable resource. In terms of policy, Pfizer's R&D accounting policies appear to be reasonable. Also, Pfizer is the one most focused on investment in R&D when it comes to money invested compared with competitors.

2.4. Restructuring Charges and Other Costs

Pfizer's situation with respect to restructuring acquisitions is relatively straightforward. Some of Pfizer's indirect costs were not transferred in a timely manner following the formation of the Consumer Healthcare joint venture in 2019. This plan incurs costs of approximately $3.5 billion through December 31, 2022, with specific costs consisting primarily of the impact of severance and benefit plans, separation costs, and related implementation costs [1]. In the case of the three peers, their restructuring acquisition policies are more onerous than Pfizer's. For Merck & Co, for example, restructuring costs also include asset abandonment, facility closures, and other related costs that are more complex to implement and are unallocated than Pfizer's [6]. Pfizer, as well as its competitors, face actuarial risks in the face of current international inflation, bank interest rate increases, and other interest rates. Restructuring costs could increase in the event of a prognosis error. In terms of complex operations, Pfizer's current restructuring policy is still partially lacking.

3. Performance Evaluation

3.1. Liquidity

Pfizer has the greatest liquidity, as Table 1 shows. The current ratio, quick ratio, and cash ratio are factors that affect the liquidity of the company's assets. Pfizer has the highest current ratio and quick ratio compared to the other three companies. The high current ratio and quick ratios indicate that Pfizer's assets are more liquid. Pfizer has a low cash ratio. The fact that Pfizer does not keep too much cash in its accounts is the main reason for its low cash ratio. Moreover, Pfizer invests more money in R&D than the other three companies. As a result, Pfizer's cash-based assets are more profitable. In summary, Pfizer's ability to service short-term debt is the strongest.

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<th>Pfizer</th>
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<tr>
<td>Current ratio</td>
<td>1.59</td>
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<td>0.93</td>
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<td>Quick ratio</td>
<td>1.37</td>
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<td>Cash ratio</td>
<td>0.08</td>
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3.2. Solvency

Pfizer has the best ability to pay off long-term debt, as Table 2 shows. Both the long-term debt ratio and the total debt ratio reflect the long-term debt service pressure a company is facing. And Pfizer has the lowest long-term debt and total debt ratio compared with the other three companies. As a result, Pfizer's capital structure is less risky.

| Table 2. Solvency ratios of Pfizer and its competitors |
|----------------------|----------------------|----------------------|----------------------|
|                       | Pfizer       | AstraZeneca  | Abbvie     | Merck & Co |
| Long-term debt ratio  | 0.26         | 0.38         | 0.79       | 0.39       |
| Total debt ratio      | 0.17         | 0.62         | 0.89       | 0.58       |

3.3. Efficiency

Pfizer is highly profitable, and its assets are being used more effectively. In 2022, Pfizer not only had its highest sales but also had the highest sales of the four companies (see Table 3). Pfizer’s asset turnover is the second highest among the four companies, just lower than Merck & Co. Since Pfizer’s sales and asset turnover are at a high level, it can be inferred that Pfizer uses its assets very efficiently. Compared to the prior year, Pfizer's asset turnover and sales both increased (see Table 4). The increase in sales and asset turnover reflects the improved operational efficiency of Pfizer's total assets.

| Table 3. Efficiency ratios of Pfizer and its competitors |
|----------------------|----------------------|----------------------|----------------------|
|                       | Pfizer       | AstraZeneca  | Abbvie     | Merck & Co |
| Asset turnover        | 0.55         | 0.42         | 0.40       | 0.56       |
| Receivable turnover   | 8.74         | 4.60         | 5.82       | 6.42       |
| Turnover days of trade receivables | 20.59 | 81.84 | 65.83 | 28.02 |

| Table 4. Solvency ratios of Pfizer in 2021 and 2022 |
|----------------------|---------|---------|
|                       | 2021    | 2022    |
| Asset turnover        | 0.53    | 0.55    |
| Sales                 | 41.65   | 81.29   |

Pfizer's capital risk is low, and Pfizer's products sell well. Pfizer has the highest receivable turnover ratio compared to the other three peer companies. The short average collection period of Pfizer can be inferred from the high receivable turnover. Because most debtors are in default for a short period of time, Pfizer's risk of bad debt losses is lower. But Pfizer has the lowest turnover days for trade receivable compared to the other three companies. Based on the low turnover days for trade receivable, it can be inferred that Pfizer adopts a tight credit policy and sets relatively strict payment terms. On the one hand, the relatively tight credit policy reduces the risk of Pfizer's transactions. On the other hand, it may limit the expansion of Pfizer's future sales.

3.4. Return on Investment

Pfizer is adept at leveraging existing assets to make a profit. Return on capital, return on assets, and return on equity are all crucial measures of a company's profitability. Pfizer's return on assets and return on capital were higher than the other three companies. Pfizer had the second-highest return on equity of the four companies, behind only AstraZeneca. Pfizer's good financial performance shows that it is achieving good results in increasing revenue and saving money on the use of funds. Overall, Pfizer's return on investment is good.
4. Strategic Outlook & Risk Assessment

Pfizer generates the majority of its revenue from the production and sale of biopharmaceutical drugs. Currently, Pfizer is committed to transforming itself into a global leader with a greater focus on scientifically innovative medicines and vaccines. In 2022, Pfizer completed a reorganization of its commercial operations. Pfizer made an effort to match its cost structure and support system with the new operational structure. Pfizer is taking steps to restructure its corporate enabling operations to effectively support its business, R&D, and PGS platform functions as part of its transformation into a more focused firm. Also, Pfizer is changing the way it interacts with patients and doctors as part of its commercial go-to-market model. Pfizer aims to take advantage of a robust pipeline, organize around anticipated operational growth drivers, and seize long-term development prospects. These trends include an aging global population, which is driving up demand for novel treatments and vaccinations that address patients' unmet needs, advancements in biological science and digital technology, which are improving the delivery of game-changing new treatments and vaccines, and the increasingly critical role that biotechnology is playing in healthcare. Pfizer will strategically seize growth possibilities going forward, largely through developing its product pipeline and increasing the value of its current products, but also by engaging in a variety of business development efforts.

In 2022, Pfizer successfully bought Arena. Arena is a company in the clinical stages of researching cutting-edge prospective medicines for the management of various immuno-inflammatory illnesses. And in an all-cash deal, Pfizer bought all of Arena's outstanding shares for $100 each, for a total stock value of roughly $6.7 billion. Moreover, Pfizer can complement its capabilities and expertise in inflammation and immunology with the acquisition of Arena. Pfizer's excellent R&D capabilities and Arena's expertise help shorten the launch time of new drugs. Therefore, the deal is very beneficial for both shareholders and patients.

Pfizer, like other companies in the industry, is facing industry-specific challenges. The regulatory environment is the primary risk factor. Pfizer invests a lot of money in R&D projects since they are vital to company expansion. However, there is a significant amount of risk and expense as well. Not every innovative product will receive regulatory approval or enjoy commercial success. Even if a product is approved for marketing, regulatory agencies will still assess the potential safety of the product and take regulatory action. And once there is no market for the product, the manufacturer will risk losing profits [8]. Intellectual property rights and licensing are the second risk factor. Pfizer's revenue may be negatively impacted by the loss, expiration, or invalidation of intellectual property rights, settlements of patent disputes with manufacturers, and the expiration of co-promotion and licensing rights. This is because generic competition is likely to emerge after patent expiration [9]. The third risk factor is pressure from the government and other payer groups to price products. In the U.S., Congress and the Biden administration will continue to regulate pricing, which could lead to legislative and regulatory reforms aimed at controlling costs. Now, legislation is under considered that, if passed, would enable Medicare to haggle over the cost of some prescription medications. Also, this proposed legislation would impose sanctions on manufacturers who raise medicine costs more quickly than inflation. Pfizer's revenue may be affected by the reduction in drug prices. The fourth risk factor is product supply. Pfizer periodically experiences delays, interruptions, or shortages in the supply of its products. These circumstances could cause Pfizer to miss its expected sales targets. All stakeholders will be impacted by the medicine shortage brought on by inadequate product supply from an economic, clinical, and humanistic perspective [10].

Pfizer's unprecedented sales in 2022 are due to high patient demand for covid-19 drugs and vaccines. However, the global outbreak situation shows that the epidemic is gradually being contained. After the covid-19, Pfizer will face the question of how to maintain growth momentum [11]. Based on the gradually improving epidemic situation, it can be inferred that the sales of Pfizer's covid-19 products will decline in 2023. Further, Pfizer's revenue in 2023 is likely to be lower than in 2022. Pfizer has an extensive product line and continues to introduce new products. Pfizer's other product sales will also rise as the global population ages causing increased demand for innovative drugs and vaccines. So its overall sales will not be affected by the decline of COVID-19 products too much.
5. Conclusion

This study found Pfizer to be performing well overall. In the future, Pfizer is well-placed to remain strong in the industry. This conclusion can be explained by the following analysis. This study begins with an analysis of recent news about Pfizer, which is useful in determining Pfizer's future direction and trends. Because Pfizer's future revenue stream changes may be relevant to what is covered in the news. Secondly, the study provides an accounting analysis based on Pfizer's annual reports and the annual reports of its competitors. By analyzing key accounting policies, this study found that most of Pfizer's accounting policies appear to be reasonable. And Pfizer's policies on restructuring and goodwill still need to be improved. Thereafter, this study evaluates Pfizer's performance, including a comparison of core financial metrics with its competitors. Study finds Pfizer outperforms its competitors in 2022. Finally, this study summarizes Pfizer's growth strategy and assesses the possible risks to Pfizer. Pfizer is committed to transforming itself into a more focused company. Pfizer will strategically seize growth opportunities, mainly by developing its product pipeline and increasing the value of its current products, but also by engaging in a variety of business development efforts. Pfizer faces specific industry challenges that could adversely affect Pfizer's future revenues. This is good for investors to make investment judgments about Pfizer. Finally, not all financial data was considered in this study. The data taken for the study is mainly from the company's annual reports and data disclosed in the market. In order to make a more accurate judgment of Pfizer's future performance, the researcher can further analyze other financial data in the future based on the above analysis.

References