How Investors Choose Assets Among Pfizer, Walgreens, and CVS

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Abstract. Investment is one of the most important economic activities, and a reasonable investment method can help investors continuously obtain stable returns and complete the process of wealth accumulation. The healthcare industry, as a technology and capital-intensive industry, has always been a favored area for investors. This study selected three companies, Pfizer, Walgreens, and CVS, and analyzed financial data from different perspectives, including risk, profitability, and market ratio; Based on these data, this study determined the investment preferences of several types of investors in three companies, and the results showed that value and return investors would invest in Pfizer and Walgreens, while stock repurchase investors would invest in CVS. The analysis in this article is crucial for helping people determine which type of stock to invest in, thereby improving their chances of outperforming the market.

Keywords: Investment; Pfizer; Walgreens; CVS.

1. Introduction

It is important to let one know that investing in stock market is a reliable strategy to accumulate personal wealth and give one more financial independence if done in a correct way [1]. However, stock market, a market that consists of millions of people, has an intrinsic stochastic character, making it extremely unpredictable, or sporadic. Granted, people have been investigating in such problem for a profound amount of time, trying to figure out a way to successfully predict how the market is going to be, and was able to come up with several models and patterns that can potentially foretell the market. By strictly adhering to these models, people do have a better chance to outperform the market; though, not guaranteed to always profit from it. This paper selects three exemplary corporations in the healthcare industry and analyzes the investment behavior of five types of investors. The result from the analysis shows that value investors are only interested in Pfizer and Walgreens because both companies had P/E ratio lower than 10 and PB ratio less than 1. The income investors are interested in both Walgreens and Pfizer as well due to the reason that they both had dividend yield over four percent. It is different for momentum investors because this type of investor will not purchase any stocks from the three companies chosen for this paper. The stock buyback investors are only interested in CVS because it had a buyback rate more than five percent, a prerequisite for attracting stock buyback investors. DCF investor will react the same as momentum investor. Neither of them would invest in the three companies chosen for this paper.

2. Profiles

Pfizer is a multinational pharmaceutical corporation that is headquartered in the United States. It is widely recognized as one of the largest pharmaceutical companies in the world and maintains a prominent presence in the global healthcare industry. Pfizer is renowned for its extensive range of prescription drugs and vaccines, including notable products such as Viagra, Lipitor, and the COVID-19 vaccine, which was developed in collaboration with BioNTech. The company is actively engaged in research, development, manufacturing, and distribution of various medications and vaccines across multiple therapeutic areas including cardiovascular, metabolic and pain, women's health, cancer, inflammation, immune disorders, and rare diseases [2]. Pfizer's contributions are instrumental in addressing healthcare challenges and advancing medical science on a global scale.

CVS Health Corporation is a provider of healthcare and retail pharmacy services [3]. The company operates numerous retail pharmacies under the CVS Pharmacy brand throughout the United States, providing prescription medications, over-the-counter products, and a variety of healthcare services. Furthermore, CVS Health manages and operates MinuteClinic retail medical clinics, which offer basic healthcare services and vaccinations. The company also provides pharmacy benefit management (PBM) services through CVS Caremark, catering to employers, health plans, and government programs. CVS Health is dedicated to enhancing health outcomes and access to healthcare services for individuals and communities, thereby establishing itself as a significant player in the U.S. healthcare sector.

Walgreens Boots Alliance, commonly referred to as Walgreens, is the largest chain of pharmacies in America [4]. The company operates an extensive network of retail drug stores and pharmacies throughout the United States and other nations. Walgreens offers a diverse range of healthcare and wellness products, including prescription medications, over-the-counter drugs, health and beauty items, as well as services such as immunizations and health clinics. Additionally, the corporation provides pharmacy benefit management (PBM) services through its subsidiary, Walgreens Boots Alliance Development, catering to various clients, including employers and health plans. Walgreens is dedicated to promoting accessible healthcare and well-being for its customers and communities, thereby establishing itself as a significant player in the retail and pharmacy industry.

3. Financial Indicators of the Companies

All the data used in this paper are collected from Yahoo Finance and Google Finance. They are the latest version that includes the time span from 2022 to 2023.

3.1. Risk

When talking about risk, people tend to overlook the fact that risk can come in both good and bad ways. By correctly evaluating the risk, one can understand the fact that investments with higher levels of risk have the potential for higher returns, but they also come with a higher probability of incurring losses. In order to manage risk, many investors choose to diversify their portfolios by spreading investments both among and within different asset classes. And rebalancing means making regular adjustments to ensure one can hit the target allocation over time [5]. It is also known that long-term investments have lower risk in general compared to short-term investments. With a longer time span, it enables companies to adjust and counteract the potential problems. In stock market, the most significant data that can be used to interpret risk is beta, which can be calculated by dividing the covariance between stock's daily returns and the market index's daily returns with the variance of the market index's daily returns. The bigger the Beta is, the higher the risk is. A beta of 1 is an indication that the price of the security moves with the market, a beta of less than 1 means that the security is less volatile than the market, and a beta of more than 1 means the security is more volatile than the market overall [6]. Moreover, market cap can be an effective way of determining risk. To be more specific, companies in the market can be classified into two categories, big cap company and small cap companies. Big cap companies refer to a company with a market capitalization value of more than $10 billion [7], and small cap companies are the ones under $10 billion; in terms of risk, small cap companies will have higher risk compared to big cap companies. All three companies analyzed in this paper are big cap companies so the market cap will not make a difference in this group. However, beta does matter. All three companies had a lower volatility than the market, and out of the three, although not significantly more, Pfizer had the lowest beta. Walgreens had the most but only slightly higher than Pfizer and CVS. Therefore, it is reasonable to conclude that Walgreens was the riskiest stock to invest, and Pfizer was the least (See Table 1).

Table 1. Details of risk for the three companies

Name	Market Cap	Beta
Pfizer	203.63B	0.55
CVS	95.65B	0.6
Walgreens	25.73B	0.67

3.2. Profitability

Profitability indicates how efficiently a company generates profit and value for shareholders [8]. To be more specific, the aforementioned statement pertains to the evaluation of the company's ability to efficiently convert its investments, operations, and business activities into monetary profits. Essentially, it serves as an indicator of the financial well-being of the company, as evidenced by the performance of its stock. The profitability can be defined by the ROA of a stock, which can be calculated by using the net income divided by total assets then multiply by 100. The higher the ROA is, the more profitable a stock is. The three companies chosen in this paper all had an ROA value less than ten. Pfizer outperforms the other two stocks by far with an ROA 8.50% and was the stock with the most profitability. Walgreens, with -0.62% ROA, was the least profitable stock out of three (See Table 2).

Table 2. Details of profitability for the three companies.

Name	ROA
Pfizer	8.5%
CVS	3.7%
Walgreens	-0.62%

3.3. Market Ratio

When considering the market ratio, one should look at the stock from different perspectives including the DCF value, momentum, stock buyback, and insiders buying. First, the DCF value, valuation method that estimates the value of an investment using its expected future cash flows, compares the price between the actual current prices with the predicted price [9]. The DCF value can be calculated by using the equation p=dividend/ (Wacc-growth rate). When calculating, add six percent to Wacc if it is a value stock and add two percent to Wacc as well if it is a small cap stock. Once getting the price for expected value, one can compare it with the current price and decide whether this stock is underrated or overrated. Second, the momentum stock is any stock that is facing a steady price change, both up or down [10]. It can be calculated by dividing the fifty days moving average with the two hundred days moving average. In order to be a momentum stock, the fifty days moving average has to be bigger than two hundred days moving average. Third, the stock buyback is a corporate action in which a company buys back its own shares from the open market or directly from its shareholders. The stock buyback will serve as a useful guide only when the rate exceeds 5%. Last, the insiders buying, an act of company insiders, such as executives, directors, or employees, purchasing shares of their own company's stock on the open market using their personal funds, is a valuable source since it provides insights into the company's prospects and the confidence of insiders in its future performance. When calculating the DCF value, all three companies chosen for this paper had a lower expected price than the current price, which means that all three corporations was overrated and would not attract any DCF investors. Likewise, because all three stocks had a smaller fifty day moving average compared to two hundred day moving average, having a momentum ratio lower than 1, none of them qualified as a momentum stock, and therefore, would not attract any momentum investors as well. In addition, when analyzing the stock buyback rate, CVS was the only stock that exceeded 5 percent, being the only company that would attract stock buyback investors. Walgreens had 4.3 percent buyback rate and Pfizer had none, so both of them did not fulfill the requirement to attract this type of investor. Lastly, it was different for insiders buying, and all three stocks had a considerable number of insiders purchasing shares of its own stock, which indicates that

they were confident about the future growth of the corporation. Pfizer outperformed the other two by having 5000000$, and Walgreens was the least with 146988$ (See Table 3).

Table 3. Details of market ratio for the three companies

Name	DCF Value	Current Price	Momentum	Stock Buyback	Insiders buying
Pfizer	30.92	36.07	0.87	0.00%	$5000000
CVS	20.03	74.61	0.855	8.00%	$976500
Walgreens	24.75	29.8	0.88	4.30%	$146988

4. Results of Asset Selection

Being able to discern the differences between the investors discussed in this paper is pivotal in stock investments, and it is also important to know what rules and models each type of investors adhere to. A value investor is a type of investor that follows the strategy called value investing, an investment strategy that involves picking stocks that appear to be trading for less than their intrinsic or book value [11]. Value investors often take an opposite approach by going against prevailing market sentiment; they may be more inclined to buy when markets are pessimistic and vice versa. When investigating in a stock, a value investor would look at both P/E ratio and PB ratio. They would only be interested when P/E is less than 10, and when PB is less than 1 (See Table 4).

Table 4. Details on the choice making for value investors.

Name	P/E	PB
Pfizer	7.1	2.02
CVS	24.59	1.35
Walgreens	7.45	1.26

Out of the three companies, a value investor would be interested in both Pfizer and Walgreens. Walgreens qualifies the requirement for P/E and was close to qualify PB ratio, so it was the best choice for value investors. Pfizer fulfilled the requirement for P/E but failed PB, so value investors would be more prone to select Walgreens over Pfizer. CVS did not qualify any requirements, and thus would not be considered by them at all.

An income investor is a type of investor that focuses on generating ongoing cash flow from their investments rather than generating capital gains when selling holdings over time [12]. Dividend yield is what income investor consider when investing, and they would only be interested when this number is bigger than 4 (See Table 5).

Table 5. Details of choice making for the income investors.

Name	Dividend yield
Pfizer	4.55%
CVS	3.24%
Walgreens	6.44%

Out of three companies, an income investor would consider both Pfizer and Walgreens because they both exceeds 4, and Walgreens outperformed Pfizer by almost 2%. Therefore, the optimal option for income investor would be Walgreens.

A momentum investor invests in momentum stocks only. They adhere to momentum investing, a strategy that aims to capitalize on the continuance of existing trends in the market (See Table 6).

Table 6. Details of choice making for the momentum investors.

Name	Momentum
Pfizer	0.87
CVS	0.855
Walgreens	0.88

A momentum investor would not invest in any stocks selected in this paper because none of the companies had a ratio greater than 1, which is the requirement to be a momentum stock.

A stock buyback investor looks solely at the buyback rate of a company. They would only be interested when this rate is bigger than 5% (See Table 7).

Table 7. Details of choice making for the stock buyback investors

Name	Stock Buyback
Pfizer	0.00%
CVS	8%
Walgreens	4.3%

According to the data, a buyback investor would only be interested in investing CVS, since it was the only company that surpassed 5%.

A DCF investor calculates the expected price by using its expected future cash flow, and compare it with the current price. If the DCF is higher than the current price of the investment, the opportunity could result in positive returns and may be worthwhile (See Table 8).

Table 8. Details of choice making for the DCF investors

Name	DCF	Current Price
Pfizer	30.92	36.07
CVS	20.03	74.61
Walgreens	24.75	29.8

After comparing, none of the companies had a higher DCF value than the current price. As a result, a DCF investor would not consider any of the three chosen for this paper.

5. Conclusion

This paper analyzed different investors and the corresponding company that they would invest. In order to accomplish the analyzation, the paper took in consider of risk, profitability, and market ratio of each stock. By doing so, the paper provides people a better chance to formulate a more rational way of investing. 3 companies, Pfizer, CVS, and Walgreens, were chosen from the healthcare industry to help exemplify the data in this paper, and out of 5 types of investors, which includes value, income, stock buyback, insider buying, and DCF, 3 will be interested in Pfizer, including value, income, and insider buying. Insider buying and stock buyback are the two that CVS would attract, and Walgreens would be considered by income, value, and insider buying.

However, the paper does have a few shortcomings such as all the models applied are not complicated enough, so the result should be considered but not solely considered. Also, only 3 companies were chosen, so the sample size is relatively minute.

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