

Pfizer

Ticker Site BiG	PFE
Ticker BiGlobal Trade	PFE
Ticker BT24	PFE
Ticker BiG Power Trade	PFE
P/E Ratio 2018E	14.12
P/BV Ratio	3.54
EV/EBITDA	11.94

Source: Bloomberg;

Price and Performance (Values in USD)

Price	42.18
52 week high	42.77
52 week low	33.20
YTD	16.4%
Average daily volume (un)	20,837,274
Market Capitalization (mn)	247,234
Beta	1.11
Dividend	1.28
EPS	3.57

Source: Bloomberg;

Analysts Consensus (last 3 months)

Buy		12
Hold		9
Sell		3

Source: Bloomberg;

Financial Data

Sales (USD mn)	52,546
EBITDA (USD mn)	19,889
Number of Employees	90,200
ROA	13.5%
ROE	35.2%
D/E	0.61
Dividend Yield	3.22%

Source: Bloomberg;

Notes:

All quotes were updated in Bloomberg at 16h10 of September 10th, 2018.

Relevant Information:

Use the following link to view our most recent publications:

<https://www.big.pt/InformacaoMercados/TradingIdeas/Index/-1>

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<https://www.big.pt/pdf/Newsletters/nld.pdf>

Pfizer (Ticker: PFE US)

Description

Pfizer produces pharmaceuticals divided mainly by the segments of internal medicine (18% of revenues), vaccines (11%), oncology (11%), inflammation & immunology (7.5%), rare diseases (4%) and consumer healthcare (7%). Legacy established products which include Lipitor (cardiovascular treatment), EpiPen (treat anaphylaxis), Zithromax (antibiotic) and Xanax (tranquilizer) represent 21% of total revenues.

In geographical terms, Pfizer is mainly present in US (49% of sales), while Developed Europe represents only 16% of sales, Emerging Markets 22% and the rest of the world 13%.

Pfizer trades in NYSE with a market capitalization of USD 247bn and has more than 90,000 employees.

Investment Case

Pfizer has a strong brand and major legacy pharmaceuticals, however its growth seems to have reached plateau. The lack of a significant drug in development that could boost future sales there is not much alternative for Pfizer other than pursuing acquisitions. These may be perceived by the market as expensive which poses a near term risk. Valuation is cheaper but very close to the average of the market, and consequently is not compensating for the lack of growth and inherent risks.

Considering the pros and cons we do not advise an investment in Pfizer at the current levels as the low valuation does not offset the current risks.

Research:

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Income Sta. (USD mn)	2017	2016
Revenues	52546	52824
Cost of sales	11240	12329
Research & Development	7657	7872
Sales & Marketing	14784	14837
Amortizations	4758	4056
Other	1802	5379
Operating Expenses	40241	44473
EBIT	12305	8351
Taxes	-9049	1123
Net Income	21354	7228
Earnings Per Share	3.57	1.18

Source: Bloomberg

Income Statement

Revenues of Pfizer dropped -0.5% in 2017, as legacy established products, sterile injectable pharmaceutical, Peri-LOE products and vaccine sales declined. The 33% growth in oncology and 9% in internal medicine were not enough to offset this negative effect. Net income grew to USD 21bn due to accounting changes related to the US tax reform.

Free Cash Flow

The effect in net income of 2017 from the tax reform was only an accounting measure and consequently the operational cash flow in 2017 was similar to 2016. The company spent less money on Capex as it did not made any significant acquisition in 2017, so it had money to reduce debt in USD 1bn, buy USD 4bn of own shares and pay USD 7.7bn in dividends.

Balance Sheet

As consequence of the US tax reform, the company decreased tax liabilities which by being registered as a gain in net income went from liabilities to equity. This was the major change in balance sheet in 2017. Pfizer assets as in most healthcare companies, are mainly composed by goodwill and intangibles which aggregate patent rights, brand value and developed technology rights.

Free Cash Flow (USD mn)	2017	2016
Operational Cash Flow	16468	15900
Business Net Income	21355	7246
Depreciations and Amortizations	6269	5757
Changes in Working Capital	1296	85
Others	-12452	2812
Investment Cash Flow	-4741	-7812
Capex	-2899	-16948
Short term investments	-2231	9261
Others	389	-125
Financial Cash Flow	-13035	-8921
Debt change	-1005	2573
Share buyback	-4138	-3981
Dividends	-7659	-7317
Others	-233	-196
Change in free cash flow	-1308	-833
Other and forex	53	-215
Cash and equivalents	1340	2595

Source: Bloomberg

Second quarter of 2018 earnings

Pfizer cut FY revenue estimates from USD 53.5-55.5bn to USD 53-55bn due to negative impact from foreign exchange rates, however it increased EPS forecasts from USD 2.9-3 to USD 2.95-3.05. In the second quarter revenues were USD 13.5bn above estimates of USD 13.3bn due to higher revenues of Lipitor, Viagra and Enbrel.

Balance Sheet (USD mn)	2017	2016
Assets	171797	171615
Cash & Equivalents	1342	2595
Short term investments	18650	15255
Goodwill	55952	54449
Receivables	8221	8225
Inventories	7578	6783
Property Plant & Equipment	13865	13318
Intangible Assets	48741	52648
Other Assets	17448	18342
Liabilities	100140	111775
Short term Debt	9953	10688
Long term Debt	33538	31398
Payables & accrued expense	4656	4536
Defined Benefit plan liabilities	7430	8172
Other liabilities	44563	56981
Total Shareowner's Equity	71656	59840
Total Equity and Liabilities	171796	171615

Source: Bloomberg

Management Team

Ian C. Read (CEO): Ian was born in Scotland (1953) and grew up in Zimbabwe. Later completed its bachelor degree in Chemical Engineering in the Imperial College London and joined Pfizer as operational auditor after qualifying as a chartered accountant. He worked in Latin America, as CFO of Pfizer Mexico and country manager in Brazil. IN 1996 was appointed president of the Pfizer International Pharmaceuticals Group, Latin America and Canada. In 2000 was elected executive vice president of Europe and Canada, adding Africa and Middle East in 2004 and Latin America in 2006. In December 10 he was elected CEO of Pfizer.

In 2017 Ian received from Pfizer around USD 25.7mn, including salary (USD 2mn), bonus (USD 2.6mn), stocks (USD 21.1mn) and other benefits.



Source: Company

Drug Sales (USD million)	2016	2017	% Growth	Weight 2017
Lyrica IH	4165	4511	8%	8.6%
Eliquis (alliance - Bristol Myers)	1713	2523	47%	4.8%
Chantix/Champix	842	997	18%	1.9%
Viagra IH	1181	823	-30%	1.6%
BMP2	251	261	4%	0.5%
Toviaz	258	257	0%	0.5%
Other Internal Medicine	447	312	-30%	0.6%
Total Internal Medicine	8857	9684	9%	18.4%
Prevnar 13	5718	5601	-2%	10.7%
FSME/IMMUN-TicoVac	114	134	18%	0.3%
Other Vaccines	239	266	11%	0.5%
Total Vaccines	6071	6001	-1%	11.4%
Ibrance	2135	3126	46%	5.9%
Sutent	1095	1081	-1%	2.1%
Xalkori	561	594	6%	1.1%
Xtandi (alliance)	140	590	321%	1.1%
Inlyta	401	339	-15%	0.6%
Bosulif	167	233	40%	0.4%
Other Oncology	63	93	48%	0.2%
Total Oncology	4562	6056	33%	11.5%
Enbrel	2909	2452	-16%	4.7%
Xeljanz	927	1345	45%	2.6%
Eucrisa		67		0.1%
Other I&I	93	103	11%	0.2%
Total Inflammation & Immunology	3929	3967	1%	7.5%
BeneFIX	712	604	-15%	1.1%
Refacto AF/Xyntha	554	551	-1%	1.0%
Genotropin	579	532	-8%	1.0%
Somavert	232	254	9%	0.5%
All other Rare Disease	292	300	3%	0.6%
Total Rare Diseases	2369	2241	-5%	4.3%
Total Consumer Healthcare	3407	3472	2%	6.6%
Lipitor	1758	1915	9%	3.6%
Premarin Family	1017	977	-4%	1.9%
Nonvasc	962	926	-4%	1.8%
Xalatan/Xalacom	363	335	-8%	0.6%
Effexor	278	297	7%	0.6%
Zoloft	304	291	-4%	0.6%
EpiPen	386	290	-25%	0.6%
Zithromax	272	270	-1%	0.5%
Relpax	323	236	-27%	0.4%
Xanax	222	225	1%	0.4%
Sildenafil Citrate		56		0.1%
Other LEP	5313	5077	-4%	9.7%
Total Legacy Established Products	11198	10895	-3%	20.7%
Medrol	450	483	7%	0.9%
Sulperazon	396	471	19%	0.9%
Fragmin	318	306	-4%	0.6%
Tygacil	274	260	-5%	0.5%
Precedex	264	243	-8%	0.5%
Zosyn/Tazocin	146	194	33%	0.4%
Other SIP	4166	3715	-11%	7.1%
Total Sterile Injectable Pharmaceu	6014	5672	-6%	10.8%
Celebrex	733	775	6%	1.5%
Lyrica EH	801	553	-31%	1.1%
Vfend	590	421	-29%	0.8%
Viagra EH	383	382	0%	0.7%
Pristiq	732	303	-59%	0.6%
Zyvox	421	281	-33%	0.5%
Revatio	285	252	-12%	0.5%
Other Peri-LOE products	276	257	-7%	0.5%
Total Peri-LOE Products	4221	3224	-24%	6.1%
Inflectra/Remsima	192	419	118%	0.8%
Other Biosimilars	127	112	-12%	0.2%
Total Biosimilars	319	531	66%	1.0%
Pfizer CentreOne	718	706	-2%	1.3%
Hospira Infusion Systems	1158	97	-92%	0.2%
Total Company Sales	52823	52546	-1%	

Source: Company data

Rating		
Agency	Rating	Outlook
S&P	AA	STABLE
Moody's	A1	STABLE
Fitch	A+	NEG

Source: Bloomberg

▲ Main Drugs in Pipeline

Eliquis: Developed in a joint venture between Pfizer and Bristol-Myers Squibb, Eliquis is an anticoagulant that treats deep vein thrombosis and pulmonary embolism. Its sales grew 47% in 2017 and represented 5% of total revenue.

Prevnar 13: Is a vaccine used to prevent a series of diseases such as pneumonia, meningitis, bacteremia, sepsis caused by various types of pneumococcal bacteria. This works by injecting very small amounts of bacterial components that are enough to stimulate the production of antibodies which will be ready to attack any future bacteria that may cause an infection. Represented 10% of Pfizer sales in 2017.

Ibrance: This drug works by interrupting the cell cycle in cancer cells in order to stop the tumor from growing. It is used to treat patients with breast cancer in combination with letrozole or fulvestrant. Represented circa of 6% of sales in 2017, growing by 46% that year, due to market share uptake in US and launch in international markets.

Enbrel: It is a biopharmaceutical (in this case a fusion protein produced by recombinant DNA), acts as a TNF inhibitor to treat rheumatoid arthritis, psoriatic arthritis, plaque psoriasis and ankylosing spondylitis. Revenues decreased 16% due to higher competition from biosimilars which is expected to continue.

▲ Drugs in Pipeline (patent expiring)

Lyrica: Its patent expired in July of 2014 in the major European markets and will expire in US in December of 2018. Sales of Lyrica in 2017 represented more than 8% of total sales, so this patent expiration is expected to have a significant negative impact in sales of Pfizer in 2019. This medication is used to treat pain caused by nerve damage due to diabetes, shingles infection or spinal cord injury.

▲ M&A

Possible acquisition of a big pharma company: There were 2 failed attempts by Pfizer to acquire AstraZeneca in 2014 and Allergan in 2016, due to opposition from the UK and US government to acquisitions to save tax spending. Pfizer was planning to move its headquarters to outside US in order to benefit from a cheaper tax location, and these acquisitions would allow that. Recently there has been some speculation around a possible acquisition of a big pharma company, due to the plateau of Pfizer pipeline. Bristol-Myers has been appointed as a possible target, however in April, CEO Ian Read declared that BMS "was not worth paying the money for". Other potential targets might be Biogen, which has a multiple sclerosis franchise, a growing drug called Spiranza (for spinal muscular atrophy) and aducanumab (an Alzheimer's drug in experimental phase).

Acquisition of Medivation: The last large acquisition made by Pfizer was in 2016, when it bought Medivation for USD 14bn. Medivation had several oncology drugs in development and had the drug Xtandi already in the market.

▲ Risks

Competition: Pharmaceutical companies are always subjected to competitive pressures of new drugs that are launched in the market. This will be reflected in the market price and may lead to a drop in margins.

US drug prices: Donald Trump has criticized multiple times healthcare companies for raising prices. US represents 50% of Pfizer's pharmaceutical sales.

Pipeline Plateau: Pfizer has no major drugs to be launched and consequently, sales are not expected to increase significantly in the next couple of years. The company may be looking to buy other smaller firms in order to achieve growth which may impact negatively the company if the market perceives the acquisition as expensive.

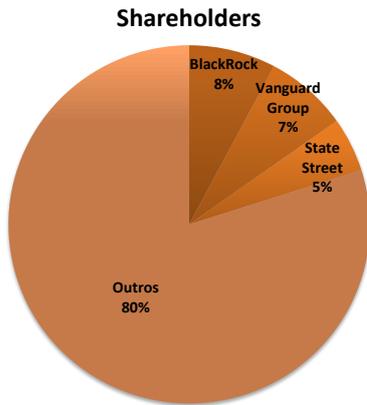
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Research:

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▲ **Relative Valuation**

Pfizer has a P/E slightly below industry average and a net debt/ebitda ratio of only 1.3x vs industry's 2.5x. Its EBITDA margin is above average at 37.8% and the company pays a dividend yield of 3.2%. While appearing relatively cheap, the valuation maybe justified by the plateau of its pipeline and the possible acquisition risk.



Name	Country	Market Cap (mn)	Currency	P/E 2018E	EV/EBITDA	EV/Sales	Div. Yield	NetDebt/EBITDA	Margin EBITDA
ASTRAZENECA PLC	BRITAIN	72,270	GBP	21.8	16.2	4.7	3.6%	2.3	28.9%
NOVO NORDISK A/S-B	DENMARK	770,035	DKK	19.5	14.3	6.5	2.5%	-0.4	45.5%
GLAXOSMITHKLINE PLC	BRITAIN	74,306	GBP	13.4	14.8	3.3	5.3%	3.6	22.2%
SANOVI	FRANCE	94,405	EUR	13.8	15.9	3.1	4.0%	3.2	19.3%
MERCK KGAA	GERMANY	38,695	EUR	17.0	12.2	3.1	1.4%	2.7	25.7%
MERCK & CO. INC.	UNITED STATES	185,794	USD	16.4	17.9	4.3	2.7%	1.6	24.1%
BIOGEN INC	UNITED STATES	68,497	USD	13.5	9.3	4.7	n.a.	0.2	50.3%
SHIRE PLC	UNITED STATES	40,187	GBP	11.3	12.6	4.5	0.6%	3.2	35.6%
RECKITT BENCKISER GROUP PLC	BRITAIN	45,941	GBP	19.6	17.0	4.3	2.6%	3.3	25.5%
FRESENIUS SE & CO KGAA	GERMANY	35,329	EUR	18.4	9.6	1.9	1.2%	2.5	19.8%
GILEAD SCIENCES INC	UNITED STATES	95,890	USD	11.2	7.5	3.8	3.0%	-0.2	51.5%
ABBVIE INC	UNITED STATES	141,191	USD	11.9	14.7	5.6	3.5%	2.8	38.1%
ALLERGAN PLC	UNITED STATES	64,610	USD	11.7	38.2	4.9	1.5%	11.5	12.7%
AMGEN INC	UNITED STATES	129,131	USD	14.3	10.3	5.4	2.6%	0.4	52.2%
BRISTOL-MYERS SQUIBB CO	UNITED STATES	98,451	USD	16.8	21.1	4.1	2.6%	-0.2	19.6%
NOVARTIS AG-REG	SWITZERLAND	209,304	CHF	16.3	12.9	3.7	3.4%	1.3	29.1%
BAYER AG-REG	GERMANY	65,120	EUR	11.9	16.6	3.7	3.9%	5.7	22.5%
ELI LILLY & CO	UNITED STATES	113,810	USD	19.4	25.5	4.1	2.1%	1.4	15.9%
PFIZER INC	UNITED STATES	248,612	USD	14.2	11.9	4.5	3.2%	1.3	37.8%
Average exc. Pfizer				15.4	15.9	4.2	2.7%	2.5	29.9%

Source: Bloomberg; BiG Research

▲ **Chart analysis**



Source: BiGlobal Trade (partner Saxo Bank); BiG Research

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PSI20 Notes in the last 12 months as of 30th of June of 2018:

	Number of Recommendations	%
Accumulate/Buy	3	75,0%
Keep/Neutral	0	0,0%
Reduce/Sell	1	25,0%
Total	4	100,0%

Source: BiG Research

Trading Ideas in the last 12 months as of 30th of June of 2018:

	Number of Recommendations	%
Profit Taking	11	78,6%
Stop Loss	1	7,1%
In Place	2	14,3%
Total	14	100,0%

Pair Trades in the last 12 months as of 30th of June of 2018:

	Number of Recommendations	%
Profit Taking	0	0%
Stop Loss	0	0%
In Place	0	0%
Total	0	0%

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