

Value Investing: A Modern Approach

Yanhao Shen^{1,a,*}

¹University of California, Santa Barbara, Goleta, Santa Barbara, CA, United States

a. yanhao_shen@ucsb.edu

*corresponding author

Abstract: This financial analysis evaluates the performance of pharmaceutical and information technology (IT) group companies focused on Annual Return, EBIT/Total Revenue, and EPS metrics from the year between 2019 and 2022. This analysis shows positive growth in annual returns for the pharmaceutical group of Merck & Co., Inc. MRK and Pfizer Inc. PFE, where PFE consistently outperforms MRK. In the IT sector, Microsoft Corporation MSFT and Apple Inc. AAPL also show substantial growth in annual returns, where AAPL is leading while MSFT is more stable than AAPL. EPS trends highlight profitability where AAPL was leading in the IT sector. Correlations between annual return and EBIT/Total Revenue are positive for both sectors, which indicates a connection between profitability and returns. This analysis suggests that the IT sector tends to perform higher and more consistent profitability and investment returns than pharmaceuticals, providing valuable insights for investors and stakeholders to inform their financial decisions.

Keywords: annual return, EBIT, investing

1. Introduction

The annual profit or loss on an investment expressed as a percentage of the investment is known as annual return [1]. EBIT measures the investment performance over a specific period, considering capital gains and income received. The Earnings Before Interest and Taxes represent a company's profitability before accounting for income taxes [2]. It measures the core operational performance of a company, excluding the influence of taxes. The Earnings Per Share represents the portion of a company's profit allocated to each share of common stock [3]. The company's ability to generate profit or earnings from its operations. It is a crucial measure of financial performance and sustainability [4]. Investors commonly use it to analyze the performance of their investments. EBT, also known as Earnings Before Taxes, measures company earnings before it pays taxes and the company's profitability.

The exciting area of this analysis is to analyze the relationship between annual return and EBT to understand company trends and their effect on investment performance [5]. The financial decision helps to allocate capital expecting to receive a return on their investment, typically in the form of dividends, interest, or capital appreciation, to understand the patterns of annual returns and EBT of both companies [6]. The generated profits or profitability is considered a significant measurement of the companies' financial performance and sustainability [7]. The main aim of this analysis is to evaluate the performance of pharmaceutical and information technology (IT) companies by critically investigating EBIT or total revenue, annual returns, and EPS metrics from 2019 to 2022. The analysis

initially discussed the trends in annual returns, EBT, EPS, and comparisons between annual returns and EBIT and the EPS and EBIT [8]. The results highlight essential insights related to the financial performance of the selected companies across four years.

2. Manuscript Preparation Financial Analysis of The Pharmaceutical and IT Group

The financial analysis demonstrates the impact of the correlation between annual return and EBIT/Total Revenue for both the pharmaceutical and information technology (IT) sectors shown in Figure 1.

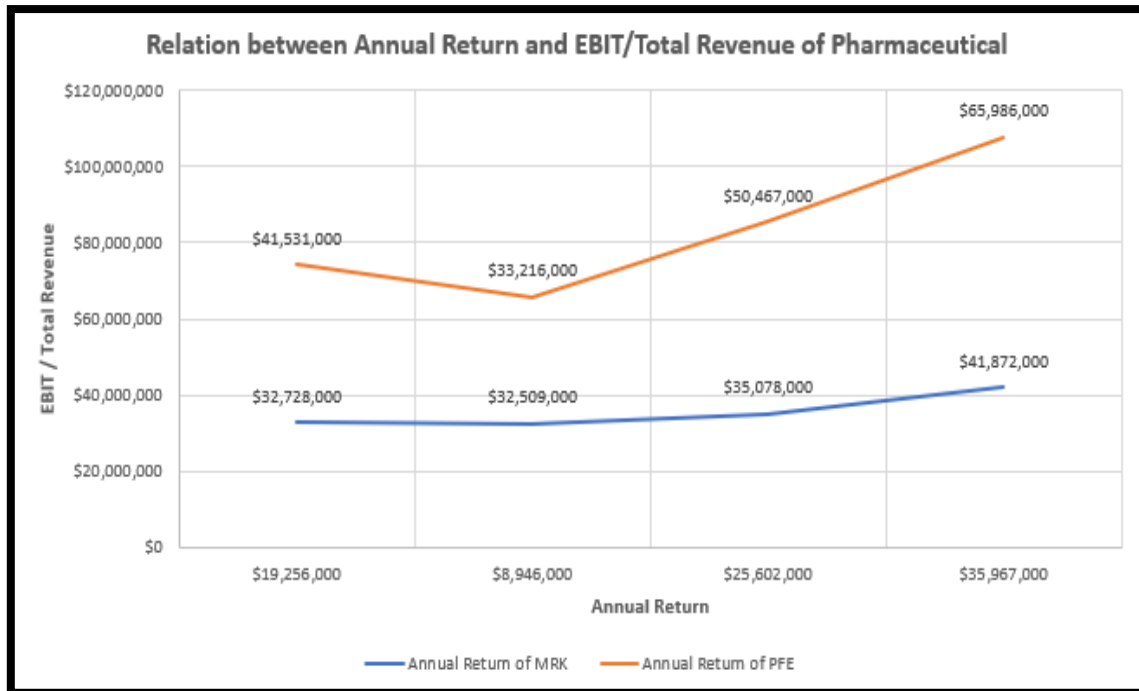


Figure 1: Relation between Annual Return and EBIT/Total Revenue of Pharmaceutical.

Figure 1 shows the correlation of annual return and EBIT/total revenue. Both stocks are highly correlated regarding EBIT (0.98 approx. correlation value) and Annual revenue (0.95 approx. correlation value). This correlation can be influenced by various industry-specific factors, such as drug development pipelines, regulatory approvals, and patent expirations. Unexpected events, such as breakthrough innovations or regulatory setbacks, can significantly impact specific pharmaceutical companies, leading to price changes and potentially altering their financial dynamics. This correlation indicates if the EBIT/total revenue is higher than the annual revenue, suggesting they are positively correlated and have higher annual returns.

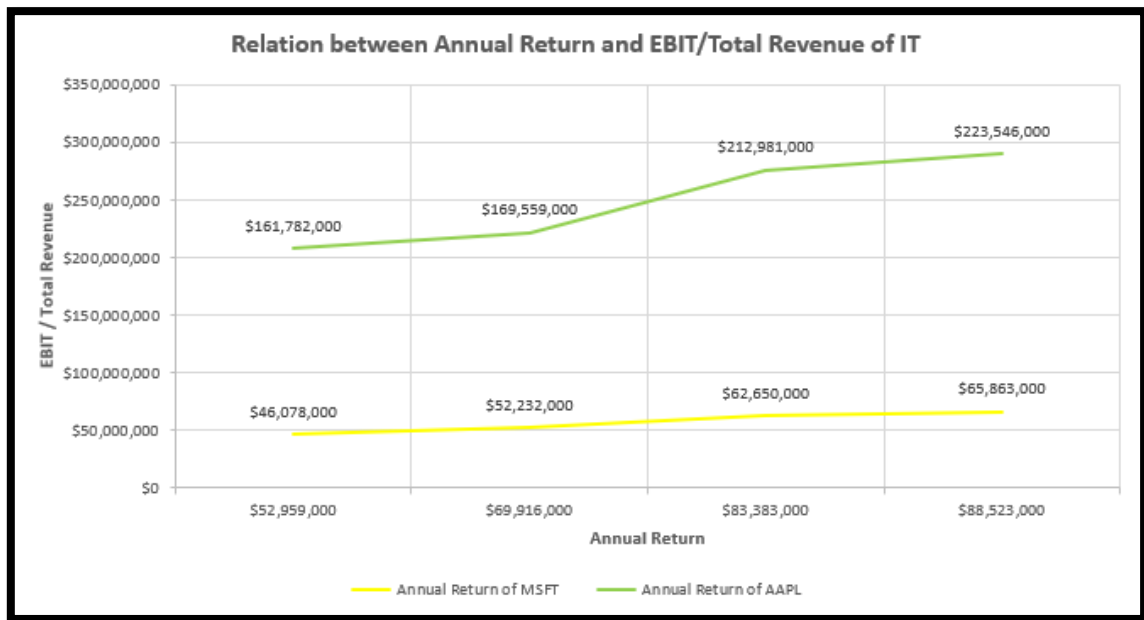


Figure 2: Relation between Annual Return and EBIT/Total Revenue of IT.

Figure 2 suggests that in the IT group represented by MSFT and AAPL, the relationship between annual returns and EBIT/total revenue positively correlates with higher EBIT/total revenue and annual returns. This shows that the stocks efficiently transform their revenue by increasing investment returns. Both stocks are highly correlated regarding EBIT (0.91 approx. correlation value) and Annual revenue (0.98 approx. correlation value). It indicates with a higher EBIT/total revenue, the annual revenue is also higher, which shows they are positively correlated with higher annual returns. The analysis of annual returns in the pharmaceutical and Information Technology (IT) group provides valuable insights into the performance of companies within these sectors from 2019 to 2022.

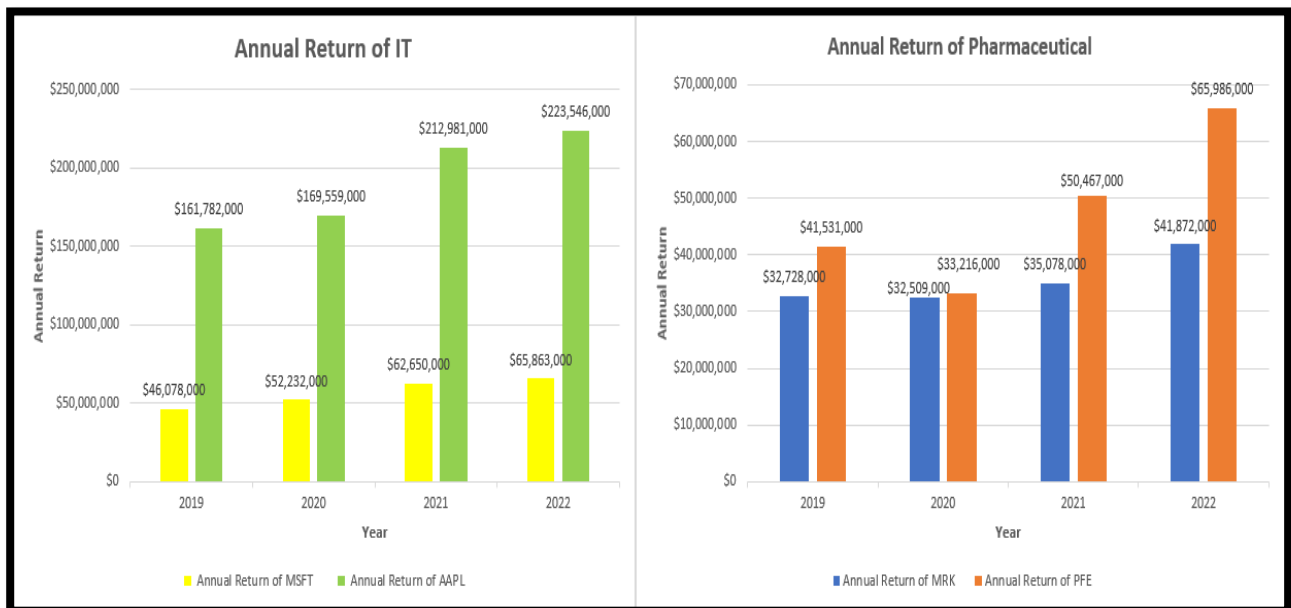


Figure 3: Annual Return of IT and Pharmaceutical.

Figure 3 suggests that the pharmaceutical group shows positive growth in their annual returns, where PFE has a higher annual return than MRK. The data shows the MRK returns increased from \$32,728,000 to \$41,872,000 [9]. The data accessed from PFE's highlights those returns grew from \$41,531,000 to \$65,986,000 from 2019 to 2022 [10]. This shows a consistent growth trend shown by PFE, which consistently reports higher annual returns than MRK. It illustrates the consistent growth in annual returns for both pharmaceutical giants MRK and PFE. This performance underscores their resilience and ability to generate positive returns for investors. Whereas the information technology (IT) group shows strong growth from 2019 to 2022, where APPL has higher Annual returns than MSFT. The data accessed from the MSFT annual addressed those returns climbed from \$46,078,000 to \$65,863,000 [11]. The data accessed from AAPL demonstrate that returns increased from \$161,782,000 to \$223,546,000 [12]. This performance emphasizes the increasing return in terms of annual revenue on stocks. It highlights the remarkable growth in annual returns within the IT sector, with AAPL outshining MSFT. This performance reflects the attractiveness of the technology industry for investors seeking annual returns. The analysis of annual returns in the pharmaceutical and IT groups shows MRK and PFE exhibited growth where PFE consistently outperformed MRK, and in the IT sector, MSFT and AAPL demonstrated substantial annual return growth, with AAPL leading in the IT group. The analysis of EBIT (Earnings Before Interest and Taxes) to Total Revenue ratios in the pharmaceutical and Information Technology (IT) groups provides insights into the profitability and financial performance of companies within these sectors over the period from 2019 to 2022.

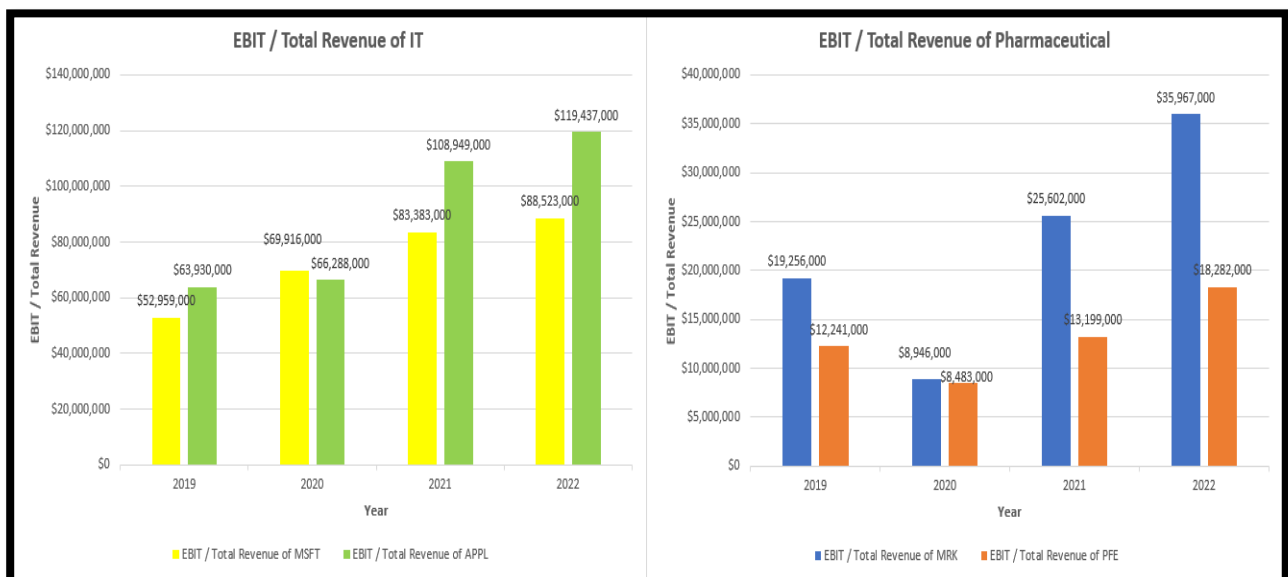


Figure 4: EBIT / Total Revenue of IT and Pharmaceutical.

Figure 4 suggests that the EBIT (earnings before interest and taxes) to total revenue ratios of MRK and PFE pharmaceutical stocks show fluctuations from 2019 to 2022. Both stocks experienced a loss in 2020 but gained the EBIT in upcoming years, with MRK reaching \$35,967,000 and PFE reaching \$18,282,000 in 2022. These variations reflect the changes in their profit through EBIT. The fluctuations in EBIT/total revenue ratios for MRK and PFE in the pharmaceutical sector signify the dynamic nature of their profitability. APPL shows higher EBIT initially but dropped in 2020, then rebounded in 2022 compared to MSFT. On the other hand, MSFT shows more stability than APPL stocks, but EBIT is not higher than APPL. The consistent growth of both companies maintained a stable profit. The EBIT/Total Revenue analysis of the pharmaceutical and IT group companies indicates that pharmaceutical companies like MRK and PFE experienced variations in the EBIT/Total

revenue. Contrarily, MSFT and AAPL performed relatively better and experienced stable profitability growth rates within the IT group. In terms of EBIT/Total Revenue ratios, MRK and PFE experience shocks to their overall profitability, which is in contrast to IT companies like MSFT and AAPL. The latter companies demonstrated stable and consistent growth in profitability over the period. In relation to Earnings Per Share, the results suggest consistent and stable growth in the profitability of all four companies between 2019 and 2022. One of the critical findings suggests better performance of MSFT compared to AAPL in the same duration.

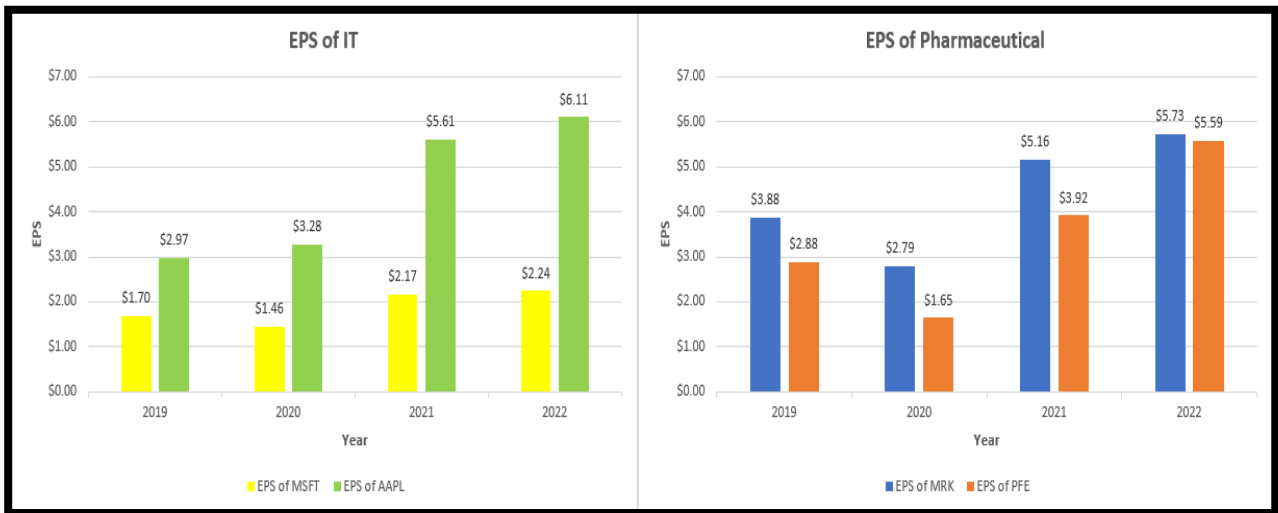


Figure 5: EPS of IT and Pharmaceutical.

As observed from Figure 5, earnings per share (EPS) fluctuations are observed for MRK and PFE stocks. The EPS plummeted to \$2.79 in 2020 and increased to \$5.73 in 2022 for MRK, while it declined to \$1.65 in 2020 and increased to \$5.59 in 2022 for PFE. These results highlight the significant relationship between EPS and revenue growth rate of the pharmaceutical stocks. The analysis suggests ebb and flow movement in EPS for both companies, which further highlights the sensitivity of pharmaceutical stocks like MRK and PFE to the changes in the market dynamics. The fluctuations in EPS for MRK and PFE in the pharmaceutical group demonstrate the impact of EPS on revenue growth within these stocks, reflecting their adaptability in a dynamic market. The MSFT and AAPL demonstrate their stocks' EPS (earnings per share). The MSFT EPS decreased from \$1.70 in 2019 to \$1.46 in 2020, then increased to \$2.24 in 2022. At the same time, the AAPL stock shows consistent growth, with the EPS growing from \$2.97 in 2019 to \$6.11 in 2022. These results show that both of the stocks enhanced their profitability through EPS. The EPS trends for MSFT and AAPL in the IT sector reveal strategies implemented by both companies to enhance their profitability. These growth patterns highlight their commitment to delivering value to investors. The analysis of EPS in the pharmaceutical and IT groups shows the pharmaceutical companies, MRK and PFE experienced fluctuations in their EPS and reflect the dynamic nature of their industry that regulatory changes can have significant impacts. Analyzing the relationship between EBIT/Total Revenue and EPS in both the pharmaceutical and Information Technology (IT) groups offers insights into how efficiently companies within these sectors are converting revenue into profits and how these profits are translating into earnings per share from 2019 to 2022.

More data has suggested that the EBIT/total revenue and EPS show an upward trend by indicating profitability from revenue conversion. MRK stock shows higher EBIT and EPS from \$19,256,000 to \$35,967,000 over the earnings per share compared to PFE stocks. This demonstrates MRK and PFE stocks have high profitability, but both stocks show fluctuations in EBIT/total revenue and EPS.

Pharmaceutical companies can be sensitive to clinical trial outcomes, patent expirations, and healthcare policy changes. Unexpected events, such as successful drug launches or regulatory hurdles, can introduce sudden shifts in EBIT/Total Revenue and EPS, influencing stock prices. It illustrates the connection between EBIT / total revenue and EPS within the pharmaceutical sector. The fluctuations observed the role of efficient revenue conversion in profitability for MRK and PFE.

Additional data has suggested that the MSFT and the AAPL show significant EBIT/Total Revenue ratio and EPS growth with efficient revenue conversion and profitability growth. Where AAPL stock shows higher EBIT and EPS than PFE stocks, this highlights that the growth of APPL stocks shows higher EBIT and EPS growth from \$63,930,000 to \$119,437,000 over PFE compared to MSFT stocks. However, it's crucial to consider that industry-specific factors, such as technological breakthroughs, market competition, and shifts in consumer preferences, can significantly influence these trends. This significant growth in EBIT/Total Revenue ratios and EPS within the IT sector provides efficiency in revenue conversion and profitability for both MSFT and AAPL. The analysis of the relationship between EBIT/Total Revenue and EPS in the pharmaceutical and IT groups shows in the pharmaceutical sector, both MRK and PFE managed profitability effectively and led to increased earnings per share. In the IT sector, MSFT and AAPL also efficiently converted their revenue into profits, resulting in higher earnings per share.

3. Arguments

Industries play a significant role in the pharmaceutical and IT sectors, where innovation and technological advancements can profoundly impact profitability. In pharmaceuticals, the success of drug development, regulatory approvals, and patent protections are critical drivers of revenue and, consequently, annual returns. In the IT sector, the ability to innovate to capture the market share and meet evolving consumer demands can greatly influence EBIT/Total Revenue and, by extension, every year's annual returns. Market sentiment also contributes to this correlation, which shows a positive EBIT/Total Revenue to boost investor confidence, leading to higher stock prices and, subsequently, greater annual returns. When EBIT/Total Revenue declines, the investor trust leads to decreased annual returns. This shows that the relationship between a company's financial performance and investor perceptions is essential for stock prices and returns. Companies that strategically manage their profitability and revenue generation correlate strongly with EBIT/Total Revenue and annual return. These strategies increase profitability and enhance investor confidence, resulting in higher returns. External factors also contribute to the connection between profitability and returns. These can range from economic conditions and government policies to global events and industry disruptions. For instance, regulatory changes in the pharmaceutical and IT sectors can impact a company's profitability and annual return.

4. Conclusion

In conclusion, the financial analysis of the pharmaceutical and information technology (IT) groups shows overall positive trends and patterns over the four-year period from 2019 to 2022. The MRK and PFE observed steady growth in the pharmaceutical sector in their annual return and earnings per share (EPS) by improving the EBIT/Total Revenue and indicating enhanced profitability and shareholders. In the case of the Information Technology group, the MSFT and AAPL show consistent growth with higher EBIT/Total Revenue for translating into higher Annual Returns and EPS. The correlation between annual return and EBIT/Total Revenue observed in both the pharmaceutical and IT sectors shows the intricate relationship between a company's profitability and attractive investors by analyzing Industry dynamics, market sentiment, strategic decision-making, and external factors. The result of the analysis shows that the IT sector exhibited higher and more consistent profitability

and investment returns compared to the pharmaceutical groups. This analysis offers valuable insights for investors and stakeholders by informed decisions based on the financials stock profiles.

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