

# ***Pfizer Inc.'s Financial Performance: An Evaluation of Growth and Profitability***

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**Abstract:** Based on Pfizer's 2021 annual report, this paper explored whether Pfizer's accounting policy is accurate, whether the company's strategic adjustments for the future are achievable, and whether Pfizer's performance is good in comparison with its industry peers. By analyzing Pfizer's accounting standards, this analysis concluded that Pfizer's accounting policy is relatively accurate. Pfizer adopted a new accounting standard for income taxes that eliminates certain exceptions related to the method of allocating tax for the period. To analyze whether Pfizer's strategic adjustment for the company's future development is achievable, this paper has analyzed the situation of the general environment in 2022 and 2023 and the characteristics of Pfizer's industry, from which this paper concluded that Pfizer's strategic adjustment is a clear choice, although it requires time and effort. It is worth noting that Pfizer made a significant acquisition in 2021. When comparing Pfizer with its competitors, this paper chose to compare the performance, leverage, and liquidity of Pfizer with its competitors, each of which contains two to three key ratios, and by comparing these data, this analysis concluded that Pfizer is still outstanding when compared with its competitors, and it is a company that investors can trust.

**Keywords:** fundamental analysis, performance evaluation, investment potential, pharmaceutical industry.

## **1. Introduction**

Pfizer, Inc., is headquartered in New York City, NY. It is one of the biggest pharmaceutical and biomedical companies in the world with a research-based focus on finding, creating, and marketing prescription medications for use in both people and animals. It is particularly known worldwide for the development of vaccines during the Covid-19 period. It has saved countless lives thanks to its 90% success rate. Pfizer's strategy is to develop and market a range of effective prescription, over the counter, and healthcare products for customers around the world while generating long-term, sustainable returns for investors [1].

The Arena is a clinical-stage firm investigating cutting-edge prospective medicines for the management of various immune inflammatory illnesses. Pfizer and Arena declared that they have reached a legally binding agreement in December 2021. The Agreement provides that we will acquire all the outstanding Shares of Arena, with a total equity value of approximately \$6.7 billion, in an all-cash transaction for \$100 per Share. The proposed acquisition was authorized by Arena's shareholders on February 2, 2022, and is anticipated to close in the first half of 2022, subject to review under

antitrust laws and other typical closing conditions. [2]. Arena, developed Etrasimod, an oral drug for the treatment of inflammatory diseases such as ulcerative colitis and Crohn's, and was the main core reason for Pfizer's acquisition. Pfizer's acquisition of Arena was a great and successful decision, and five months after its acquisition, Pfizer announced that Etrasimod had met the clinical remission targets of the Elevate UC 52 study. The combination of Pfizer's strong R&D capabilities and Arena's expertise has resulted in a win-win situation for both companies and better patient outcomes [3].

Pfizer adopted a new accounting standard for income taxes on January 1, 2021, eliminating some exceptions related to the method of allocating tax for the period, the method of calculating interim income taxes, and the new guidance also simplifies the accounting for royalty taxes and changes in enacted tax laws or rates and clarifies the accounting for transactions that increase the tax basis of assets. Pfizer has also changed how it calculates pension and retirement plans as well as how it defines and measures the actuarial gains and losses associated with pension and retirement plans. [4].

## 2. Accounting Analysis

Pfizer prepares parent and subsidiary accounts by U.S. GAAP. For subsidiaries operating outside the U.S., the financial information is for the year ending November 30, which means that information for foreign subsidiaries after November 30 will appear in the following year's annual statements. For subsidiaries in the U.S., the financial information is for the year ending December 31 [4]. The accounts of the main company and all of its subsidiaries are included in the consolidated financial statements, therefore the timing discrepancy may cause sizable disparities between the accounts of the subsidiaries. In addition, in the first quarter of 2021, Pfizer made an accounting change in which they remeasured the actuarial gains and losses arising from Pfizer's pension and retirement plans, also known as MTM accounting [4]. Under the previous policy, Pfizer delayed the recognition of accumulated losses and other comprehensive losses from pension and retirement plans, and the cumulative impact of such delayed accounting has been reduced to \$6.0 billion of retained earnings as of January 1, 2019. As a result of the change, Pfizer will immediately initiate the calculation and recording of actuarial gains or losses as pension or post-retirement plan cups are remeasured and will classify changes in this category as other (income)/deductions-net [4].

### 2.1. Revenue Recognition

When control of a product is transferred from Pfizer to a customer, Pfizer records revenue from the sale of the product then. Pfizer generally determines the transfer of control based on the time of shipment or delivery of the product and the transfer of ownership [4]. In addition to this, Pfizer's revenue deductions are clearly defined. Deductions are generally estimated and recorded in the same period in which revenue is determined. As these deductions represent estimations of the associated commitments, it takes skill and judgment to record them and determine how they will affect gross sales [4]. Pfizer is a company that sells drug formulations, treatments, and manufacturing rights, and in general, this calculation is accurate for the nature of Pfizer's business. In addition, Pfizer's approach to deductions is also accurate, as Pfizer classifies, and judges deductions as opposed to other companies that account for them in a cursory manner. This makes Pfizer's bookkeeping more accurate and reduces errors.

### 2.2. R&D Expense

R&D costs are written off as they are incurred. These fees pay for both the expenses of our internal R&D projects and the expenses connected with license agreements. We report upfront and milestone payments to third parties under license agreements as expenses before a compound achieves regulatory approval [4]. As they are made, upfront payments are documented, while milestone

payments are recorded after they have been reached. Any milestone payments are recorded in identifiable intangible assets, less accrued amortization after a compound receives regulatory approval [4]. They normally amortize the payments over the remaining agreement period or the estimated product life cycle, whichever is shorter, unless it is established that the asset has an indefinite life [4]. Pfizer's calculations for R&D spend are fairly accurate, and they have a breakdown of different ways dad R&D overhead and a more granular breakdown in third-party payments. This makes their bookkeeping more accurate, and the accounts look clearer.

### 2.3. Long-Live Asset

As a pharmaceutical company, long-term assets are an important part of the asset composition. In Pfizer's bookkeeping, long-term assets are composed of three main components.

Property, plant, and equipment are recorded at cost, which is the market price at the time of acquisition, in addition to any significant improvements made since the time of purchase, less accumulated depreciation. Except for land and construction in progress, plant, and equipment assets are depreciated using the straight-line method, but for tax purposes, accelerated depreciation is performed to the extent permitted by tax law. The health of PP&E determines whether or not an investor should invest in the company. Fixed assets are a very promising investment for the future of a company. When a company invests heavily in PP&E, it indicates that management has absolute confidence in the long-term prospects and profitability of the company [4].

While intangible assets with indefinite lives are not amortized since it is possible to identify their useful lives, intangible assets with finite lives are amortized on a straight-line basis over their anticipated useful lives [4].

Goodwill refers to the portion of the consideration for the transfer of the acquired business that exceeds the non-matching value of its net assets, which is not amortized. They determine the fair value of each reporting unit when it comes to goodwill and, if necessary, record an impairment loss for the discrepancy between the reporting unit's book value and indicated fair value [4].

## 3. Performance Evaluation

To evaluate whether Pfizer is performing well in its industry, it is best to calculate the data of its competitors in the same industry to make a comparison. In the same industry, four firms are comparable to Pfizer: AbbVie Inc., Merck & Co Inc., Eli Lilly & Co, and Johnson & Johnson. The financial ratios mentioned below are calculated based on their annual reports [5-8].

### 3.1. Profitability Measures

In this section, it is a good choice to judge their performance by comparing ROC, ROA, and ROE. ROC and ROE are well-known and trusted investment metrics, ROE (Return On Equity) measures the profitability of a company relative to shareholders' equity, ROC (Return On Equity) comprises the total amount of the company's debt owing in the form of loans and bonds in addition to the value of the owner's equity [9].

By calculation, Pfizer's ROC in 2021 is approximately 19.38%, compared to its control competitors AbbVie at 14.77%, Merck at 18.95%, Eli Lilly at 22.95%, and Johnson & Johnson at -47.41%. Since Eli Lilly has a higher market capitalization than Pfizer, it is normal for its ROC to be higher than Pfizer's. AbbVie, Merck, and Pfizer are close in market capitalization, and Pfizer's ROC is higher than its rivals in the same class of competitors. ROC measures the ratio of a company's net income to the sum of its debt and equity value. In other words, it is the amount of money a business makes over the typical cost of debt and equity [6]. Pfizer's ROC is higher than its competitors, which

means it earns more money than the average cost it pays for debt and equity, which means it has a high net income.

By calculation, Pfizer's ROE in 2021 is about 28.37%, compared to its competitors AbbVie at 76.19%, Merck at 34.11%, Eli Lilly at 60.97%, and Johnson & Johnson at 28.2%. A company's profitability and efficiency in generating profits are both deemed to be measured by ROE. The management of the company is more effective at generating revenue and growth from equity financing the higher the ROE. In other words, the ability of the corporation to turn equity financing into profits increases with ROE. Pfizer does not perform well in terms of ROE, but if a company's ROE is above 20%, then it is considered a worthwhile investment. Overall, Pfizer's ROE is not outstanding between peer comparisons, but it is outstanding from a macro perspective.

ROA (Return on Assets) is also a very important metric to judge, ROA is the proportion of an organization's profitability to its total assets. A corporation that has a higher ROA is more effective and efficient at managing its balance sheet to produce profits, while one with a lower ROA could do so.

By calculation, Pfizer's ROA is 12.11%, compared to its competitors AbbVie at 8.03%, Merck at 12.35%, Eli Lilly at 11.44%, and Johnson & Johnson at 11.47%. By comparison, Pfizer's ROA is high for both competitors at the same market cap price point and competitors above its market cap price point. This indicates that Pfizer is more efficient and productive in managing its asset load sheet to generate profits. Overall, in the Performance Measures segment, Pfizer is outperforming.

### 3.2. Leverage and Liquidity Measures

Whether a company is worth investing in also depends on whether it has an excellent Leverage and Liquidity Ratio.

Among the Leverage Measurements, the Long-term debt ratio and the Total debt ratio are the most important. The long-term debt ratio, which is the proportion of assets the firm must sell to pay off its long-term debt, offers an overall assessment of a company's long-term financial position, including its capacity to repay its outstanding loan obligations. Pfizer's Long-term Debt Ratio is calculated to be 0.32, compared to 4.16 for AbbVie, 0.8 for Merck, 1.68 for Eli Lilly, and 0.41 for Johnson & Johnson. The long-term debt ratio varies by industry, but in general, a measure of less than 0.5 is not considered a measure of long-term financial health. Both Pfizer and Johnson & Johnson have a long-term debt ratio of less than 0.5, but Pfizer has a smaller ratio. This shows that Pfizer has a high loan repayment ability and is trusted by investors.

A financial measurement that assesses a company's degree of leverage is the total debt ratio. A ratio larger than 1 signifies that the company has more liabilities than assets and that a sizable amount of its assets are financed by debt. A ratio lower than 1 indicates that more equity is being used to finance the company's assets. Pfizer's total debt ratio is calculated to be 0.57, while its competitor AbbVie is 0.89, Merck's is 0.64, Eli Lilly's is 0.81, and Johnson & Johnson's is 0.59. Although the total debt ratios of Pfizer and these four competitors are all less than 1, Pfizer has the smallest ratio. This proves that most of Pfizer's assets are funded by equity. This allows Pfizer to reduce the risk of facing a sudden rise in interest rates and facing loan defaults. Overall, Pfizer's leverage performance is excellent, and its loan repayment and asset composition are very safe, making it a worthwhile investment for investors.

Among the Liquidity Ratio, current ratios, quick ratios, and cash ratios are the most important. A liquidity ratio called the current ratio assesses a company's capacity to settle short-term or debt that is due within a year. It explains to investors and analysts how a business is making the best use of the current assets listed on its balance sheet to pay down its outstanding obligations. The current ratio of Pfizer is calculated to be 1.4, while its competitors AbbVie is 0.79, Merck is 1.27, Eli Lilly is 1.23, and Johnson & Johnson is 1.35. Using the current ratio to judge the financial health of a company

requires using the industry average the average current ratio for the health services industry in 2021 is 2.86 [9]. A current ratio that is below the industry standard can suggest a higher risk of default or financial trouble. A company's management may not be making the best use of its resources if its current ratio is significantly higher than that of its competitors. Although Pfizer and its four competitors are not meeting the current ratio standard, Pfizer is the closest of the five to 2.86. 2021 will not be an easy year, and with the economy plummeting as COVID-19 spreads unchecked, it is plausible that the current ratio will not meet the standard in 2021.

The Quick Ratio measures a company's capacity to satisfy its short-term obligations using its most liquid assets and serves as a gauge of its short-term liquidity position. The better the firm's liquidity and financial situation, the higher the ratio result; the lower the ratio, the more likely it is that the company will have trouble repaying its debts. By calculation, Pfizer's quick ratio is 1.19, its competitor AbbVie is 0.7, Merck's is 1.02, Eli Lilly's is 0.97 and Johnson & Johnson's is 1.12. By comparison, Pfizer has the highest quick ratio, which indicates Pfizer's liquidity and financial position is good and they can repay their debts.

The cash ratio demonstrates the company's capacity to settle its short-term debt entirely out of cash and cash equivalents. If the result is larger than 1, it means that the company has more cash on hand than it does current debt, and if it is less than 1, it means that it has more short-term debt than cash. By comparison, Pfizer's cash ratio is calculated to be 0.05, its competitor AbbVie is 0.28, Merck's is 0.34, Eli Lilly's is 0.25, and Johnson & Johnson's is 0.32. By comparison, it is found that all five companies have a cash ratio of less than 1, which indicates that they all have more short-term debt than cash. However, it is important to know that medical R&D companies need to invest a lot of money in the R&D department, and short-term debt helps them to get research funds quickly.

Finally, Pfizer's performance, leverage, and liquidity are all excellent compared to its competitors, making Pfizer a company that investors can trust.

#### **4. Forecast & Strategic Outlook**

Pfizer will transform the future, in other words, Pfizer will strategically reorganize its various divisions [4]. What must be mentioned in this section is the COVID-19 that made Pfizer world famous. Pfizer's revenue in 2022 reached a record \$100 billion, \$57 billion of which was generated by its vaccines and antivirals [10]. But as COVID-19 gradually plateaus in Europe and the U.S. starting in 2021, fewer people will care about COVID-19 in 2022 until 2023, when China also announces that it will open its borders and no longer restrict travel due to COVID-19. COVID-19 will fade from view, and Pfizer is forecasting a decline in revenue of up to 33 percent in 2023, about 67 billion to \$71 billion [10]. Pfizer's decision to transform the company to face the changing situation in their 2021 annual report, combined with the situation in 2023, is very wise and correct. To ensure the success of the company's transformation, Pfizer has also adjusted their cost base and support model, which means they are moving toward supporting the company's transformation through cost savings.

From a long-term perspective, Pfizer cannot rely on COVID-19 for profit forever as the global COVID-19 plateaus, so moving to a more focused corporate operating model is the best strategy to deal with the change. But there is no denying that this is an arduous process. Pfizer is the largest pharmaceutical R&D company, and to ensure the quality of its products, the most expensive R&D expense could not be significantly reduced. Cost-saving spending can only support Pfizer's transformation in the relatively short term, but in the long term, Pfizer will need to adjust its business and broader strategic alignment to maintain the company's transformation plan until it succeeds.

In addition to this, Pfizer also mentioned that they will be doing R&D enhancements in the future [4]. In addition to developing new products, they hope to add value to their customers by improving the effectiveness and ease of use of their existing products, as well as discovering potential new

indications. This is a wonderful vision for a pharmaceutical company, but it is also a very risky move for Pfizer. At a time when the company is facing a strategic realignment, the R&D enhancements will lead to greater spending, which goes against Pfizer's cost-saving guidelines. On top of that, researching new drugs and improving the effectiveness of existing products are two tasks that cannot be done simultaneously. Whether developing products or upgrading existing ones, Pfizer needed a lot of time, money, and manpower to do the research. In Pfizer's annual report, they mentioned that in the future they hope to meet the increased demand for innovative drugs and vaccines to meet the needs of patients as the global population ages [4]. While this could provide long-term growth for Pfizer in the future, it will be unpredictably difficult to develop drugs and vaccines for diseases that are common with aging populations, as older people often suffer from diseases that the medical community has not been able to overcome, such as cancer, Parkinson's, and Alzheimer's disease.

Etrasimod, an oral medication used to treat inflammatory diseases like ulcerative colitis and Crohn's disease, was the focal point of Pfizer's acquisition of Arena in 2021, but the company also acquired assets that could improve cardiovascular patient care. Arena's portfolio includes diverse and promising development-stage therapeutic candidates in gastroenterology, dermatology, and cardiology. [4]. Arena President and Chief Executive Officer Amit D. Munshi said in a statement, "Pfizer's capabilities will accelerate our mission to deliver important medicines to patients" [3]. All indications are that Pfizer's acquisition of Arena is a win-win, as Pfizer's strong R&D capabilities will allow Arena's drugs to be better developed. In 2022, five months after Pfizer acquired Arena, Etrasimod met its clinical remission goal for the ELEVATE UC 52 study, but today the company is revealing the hard data behind that success. At week 12, the clinical remission rate was 7.4% for patients receiving treatment compared to 7.4% for those receiving a placebo. At week 52, 32% of patients treated with Etanercept achieved clinical remission compared to 6.7% in the placebo group. These successful data and cases illustrate that Pfizer's acquisition of Arena was a success story and a successful decision at the leadership level [3].

## 5. Conclusion

Pfizer's success in 2021 can be attributed to a number of factors. One of the key reasons is the company's relentless focus on research and development, which has resulted in the development of a number of breakthrough drugs, including the COVID-19 vaccine. In addition, Pfizer's management team has been effective in executing the company's strategy and making smart investments in areas like oncology and gene therapy. Looking ahead to 2022, Pfizer is well-positioned for continued success. The company is expected to make strategic changes that will help it capitalize on emerging trends in the healthcare industry, such as the growing demand for personalized medicine and the increasing use of digital technologies. Furthermore, Pfizer's acquisition of Arena is expected to pay off in the form of improved patient care and better outcomes for the company's customers.

Of course, there are also challenges that Pfizer will need to navigate in the coming year. These include increasing competition from other pharmaceutical companies and the ongoing uncertainty created by the COVID-19 pandemic. However, given Pfizer's track record of success and its strong leadership team, there is every reason to believe that the company will continue to thrive in the years ahead.

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