

Financial Analysis of AbbVie, Johnson & Johnson, and Pfizer in the Pharmaceutical Industry

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Abstract. Innovation and market instability characterize the pharmaceutical sector, offering a variety of investment prospects. The research undertakes an extensive economic review of three leading pharmaceutical companies: AbbVie, Johnson & Johnson, and Pfizer. This study utilizes financial models like Ratio Analysis and PEG ratios to identify which investor categories—Value Investors, Income Investors, and PEG Investors—are the most inclined to favor these firms. The study indicates a particular allure for Value Investors towards Johnson & Johnson, attributed to its robust market stance and steady expansion. Financial backers prefer AbbVie and Pfizer, with each providing greater dividend returns in line with strategies driven by income. PEG Investors, aiming to strike a balance between pricing and market growth, frequently opt for AbbVie due to its appealing price-to-income growth ratio. This study's results offer crucial understanding for investors, empowering them to customize their tactics and enhance their portfolio by making enlightened choices in the pharmaceutical field.

Keywords: Pharmaceutical; Risk; Profitability; Ratios; Market Trends.

1. Introduction

The pharmaceutical sector's investment has been acknowledged for a while as a tactic leading to significant economic gains. The financial behavior of this industry, bridging healthcare and sophisticated technology, is shaped by various elements such as the cycles of innovation, regulatory structures, and worldwide health patterns [1]. Such elements generate risks as well as potential opportunities for investors.

The sector has attracted significant focus, especially following the emergence of the COVID-19 pandemic, highlighting the pivotal function of pharmaceutical firms in tackling worldwide health emergencies. Firms such as Pfizer rose to fame globally, celebrated not solely for their enduring medical contributions but also for their swift and efficacious reaction to the pandemic [2]. Concurrently, other leading industry players such as Johnson & Johnson and AbbVie persisted in fostering advancements in fields like cancer treatment, immune system studies, and public health.

This document intends to deliver an in-depth analysis of the financial status of three prominent drug companies: AbbVie, Johnson & Johnson, and Pfizer. The analysis centers on crucial economic metrics, encompassing risk, profitability, and market ratios. Furthermore, the research aims to explore various investor categories and their choices, thereby contributing to the development of reliable investment approaches in the pharmaceutical industry.

2. Profiles of the Selected Companies

To better understand the financial performance of these companies, it is crucial to first establish a profile for each. This section will provide a brief overview of AbbVie, Johnson & Johnson, and Pfizer, focusing on their core business areas and strategic objectives.

2.1. AbbVie

AbbVie, established in 2013 as a spinoff from Abbott Laboratories, has become a prominent player in the pharmaceutical industry, particularly in the fields of immunology, oncology, and virology. The company's flagship product, Humira, has consistently been one of the best-selling drugs globally. However, with recent patent expirations, AbbVie faces increasing competition from biosimilars, raising concerns about future revenue streams [3]. In response, AbbVie has diversified its portfolio by acquiring Allergan, gaining access to Botox and other lucrative products in aesthetics [4].

2.2. Johnson & Johnson

Johnson & Johnson, a diversified healthcare conglomerate, operates in three major segments: pharmaceuticals, medical devices, and consumer health products. Its pharmaceuticals segment has gained prominence through drugs for oncology, immunology, and infectious diseases, while its medical devices division supports a broad range of therapeutic areas [5]. Johnson & Johnson's strong focus on research and development (R&D) has allowed it to maintain a competitive edge in the pharmaceutical sector [6]. Despite facing legal challenges related to its talc products, Johnson & Johnson's diversified business model has helped it sustain financial stability [7].

2.3. Pfizer

Pfizer, one of the largest pharmaceutical companies in the world, is renowned for its innovative products, particularly in vaccines and oncology. Pfizer's rapid development and distribution of the COVID-19 vaccine, in collaboration with BioNTech, has solidified its market presence and demonstrated its capability to respond swiftly to global health crises [8]. The company's pipeline continues to expand into new therapeutic areas, with a focus on precision medicine and gene therapy [9]. Pfizer's strategy of growth through strategic alliances and acquisitions has further strengthened its position in the global pharmaceutical market [10].

3. Financial Indicators of the Companies

A company's fiscal stability is evaluated through multiple measures, encompassing risk, profit margins, and market proportions. These metrics offer a glimpse into a company's performance compared to its competitors and assist investors in predicting its future success.

3.1. Risk

Risk is a key consideration for investors, particularly in the pharmaceutical industry, where companies are often exposed to high levels of volatility due to factors such as patent cliffs, regulatory hurdles, and R&D outcomes. Common measures of risk include Market Capitalization, Beta (a measure of stock volatility compared to the market), and Total Debt Ratio (a measure of a company's leverage). The relevant indicators of the three companies are shown in Table 1 below.

Table 1. Risk

Indicators	AbbVie	Johnson & Johnson	Pfizer
Market Cap	\$235Billion	\$450Billion	\$220Billion
Beta	0.75	0.60	0.90
Total Debt Ratio	0.50	0.35	0.60

AbbVie's higher debt ratio of 0.50 suggests a more aggressive capital structure compared to Johnson & Johnson, which has a debt ratio of 0.35, indicating a more conservative approach to financing. Pfizer's debt ratio is even higher at 0.60, reflecting its investment in recent acquisitions and R&D efforts.

Risks linked to the expiration of patents, alterations in regulations, and rivalry with generic medications are especially high in the pharmaceutical sector. AbbVie, characterized by its elevated debt ratio, seems to be utilizing debt as a catalyst for expansion, especially amidst falling revenues from Humira. Adopting this approach carries its own set of dangers, with substantial debt potentially causing economic distress should new products not meet anticipated performance standards.

On the other hand, Johnson & Johnson's more conservative debt management, combined with its diversified business model, makes it a lower-risk investment. J&J's lower beta also indicates that its stock price is less volatile compared to the broader market, offering more stability to investors.

Pfizer's relatively higher beta of 0.90 suggests that its stock is more volatile, which can be attributed to the company's reliance on blockbuster products like the COVID-19 vaccine. While this has generated substantial revenue, it also introduces uncertainty as demand for the vaccine fluctuates over time.

Overall, investors with a lower risk tolerance may prefer Johnson & Johnson for its stability, while those seeking higher returns with a higher risk tolerance may find AbbVie and Pfizer more attractive due to their growth potential.

3.2. Profitability

Profitability is a crucial factor for investors as it directly affects a company's ability to generate returns. Key profitability metrics include Total Assets, Profit Margin, Return on Assets (ROA), and Return on Equity (ROE). The relevant indicators of the three companies are shown in Table 2 below.

Table 2. Profitability

Metrics	AbbVie	Johnson & Johnson	Pfizer
Total Assets	\$84Billion	\$162Billion	\$99Billion
Profit Margin	20.5%	23.8%	29.1%
ROA	10.2%	16.8%	12.6%
ROE	35.0%	27.5%	20.1%

Pfizer's profit margin of 29.1% indicates strong operational efficiency and pricing power, which is particularly notable given the competitive pressures in the pharmaceutical industry. AbbVie's high ROE of 35.0% suggests that it is effectively using shareholder equity to generate profits, making it an attractive option for investors seeking strong returns on their investment.

Profitability in the pharmaceutical industry is heavily influenced by factors such as drug pricing, market exclusivity, and R&D investments. Pfizer's strong profit margin is a result of its high-margin products, particularly the COVID-19 vaccine. However, as the pandemic subsides, Pfizer will need to sustain its profitability through new product launches and pipeline innovations.

AbbVie's high ROE indicates that the company is generating significant returns for its shareholders, despite facing challenges from the upcoming expiration of Humira's patent. This suggests that AbbVie's management is effectively navigating these challenges by investing in high-potential areas like oncology and immunology.

Johnson & Johnson's profitability metrics, while strong, reflect its diversified business model. The company's consumer health and medical devices divisions provide steady revenue streams that complement its pharmaceutical operations. This diversification helps to smooth out earnings volatility, making J&J a reliable choice for income-focused investors.

Investors who prioritize high profitability and returns may find Pfizer and AbbVie more appealing, while those seeking a more balanced and diversified approach may prefer Johnson & Johnson.

3.3. Market Ratios

Market ratios, such as Price-to-Earnings (P/E) and Price-to-Book (P/B), provide insights into how the market values a company relative to its earnings and book value. These ratios are often used by investors to assess whether a stock is overvalued or undervalued (See Table 3).

Table 3. Market Ratios

	AbbVie	Johnson & Johnson	Pfizer
P/E Ratio	10.5	17.8	12.2
P/B Ratio	5.3	6.0	3.8

AbbVie's lower P/E ratio of 10.5 suggests that the market may be undervaluing the company, possibly due to concerns about its reliance on Humira. Pfizer's P/B ratio of 3.8 indicates that the market values the company at a lower multiple of its book value compared to its peers, which could signal an opportunity for value investors.

Market ratios are essential for assessing whether a company is fairly valued relative to its earnings and assets. AbbVie's low P/E ratio may be attractive to value investors who believe that the market is overly pessimistic about the company's prospects post-Humira. If AbbVie's pipeline delivers strong results, there could be significant upside potential for investors who buy in at the current valuation.

Johnson & Johnson's higher P/E and P/B ratios reflect the market's confidence in its diversified business model and stable earnings. While these ratios may suggest that J&J is more expensive relative to its peers, investors are willing to pay a premium for the company's lower risk profile and consistent dividend payments.

Pfizer's lower P/B ratio indicates that the market may be undervaluing the company's assets, possibly due to uncertainties surrounding the long-term demand for its COVID-19 vaccine. However, for investors who believe in Pfizer's ability to innovate and expand its pipeline, this could represent a buying opportunity.

4. Varieties of Investors and Their Financial Choices

Pharmaceutical industry investors can be classified according to their investment tactics and goals. Grasping the nuances of these investor profiles is crucial for pinpointing the companies that align most closely with their tastes.

4.1. Investors of Value

Investors in value are inclined to purchase shares undervalued by the market, anticipating that their value will eventually increase to mirror their actual worth. Investors concentrate on indicators such as the Price-to-Earnings (P/E) and Profit-to -Earnings (P/B) ratios to pinpoint possible opportunities.

Within this framework, the lower P/E and P/B ratios of AbbVie and Pfizer could appeal to investors seeking value. The undervaluation of AbbVie is attributed to worries over Humira's falling income and Pfizer's profitability following the pandemic. If value investors have faith in their prospective expansion and the firms' capacity to innovate and stay competitive in the pharmaceutical sector, they might view these enterprises as promising deals.

AbbVie, in the face of Humira's impending patent crisis, appears to be broadening its income streams through its array of immunology and oncology medications, along with acquiring Allergan. Such an outcome might lead to substantial long-term value generation, attracting value investors seeking prospective growth. Likewise, Pfizer's broad scope in oncology and immunology, coupled with its international presence, could offer significant value, particularly as the firm shifts from depending on COVID-19 vaccines to focusing on sustainable income from its other drug innovations.

4.2. Investors in Income

Investors focusing on income give precedence to firms providing consistent and dependable dividend disbursements. Their usual preference is for companies known for consistent dividend payouts and enduring cash flows to sustain continuous disbursements. Investors of this nature might prefer firms with lower volatility, given that those investing in income tend to favor consistent, foreseeable profits over the potential for more risky expansion.

Within this classification, Johnson & Johnson emerges as a premier option. J&J boasts an extensive track record of boosting dividends, in harmony with the objectives of income investors. The varied range of products in the pharmaceutical, medical device, and consumer health sectors ensures the stability required to maintain these benefits over an extended period. The firm's consistent production of cash flow and robust financial statement bolster its capacity to keep distributing capital back to its investors.

AbbVie presents itself as an appealing choice for those investing in income, owing to its substantial dividend yield. The firm has persistently increased its dividend payouts, rendering it an attractive option for income seekers. Nonetheless, considering AbbVie's escalating debt and the impending expiry of Humira's patent, investors focusing on income must evaluate the firm's capacity to sustain and expand its dividends going forward. The latest purchase of Allergan introduces additional complexity and diversification, potentially aiding in maintaining upcoming dividend distributions.

Pfizer has sustained its dividends thanks to the robust cash flow generated by its COVID-19 vaccine. The reduced Price-to-Earnings ratio of Pfizer might also indicate a potential undervaluation for investors confident in its upcoming ventures. Nonetheless, investors must assess the impact on Pfizer's dividend distributions as revenues from vaccines reach a stable state after the pandemic.

4.3. Investors in PEG

Investors in PEG (Price/Earnings to Growth) concentrate on the adjusted price-to-earnings ratio, accounting for growth rates. These financiers show interest in firms that possess not just appealing present values but also exhibit significant potential for future expansion. Investors in PEG prefer firms where the growth in future profits outweighs the present cost, providing an optimal balance of value and expansion.

PEG investors might find Pfizer attractive for its strong pipeline and expansion prospects beyond the COVID-19 era. Even with a possible drop in vaccine earnings, Pfizer's emphasis on broadening its oncology and immunology collections equips it for sustained expansion. Should the firm persist in innovating and introducing novel medications to the market, its present market value could be rationalized by anticipated increases in profits.

The consistent expansion path of Johnson & Johnson could attract investors from PEG. Despite having a P/E ratio surpassing that of AbbVie and Pfizer, J&J's varied income sources and robust pipeline indicate potential for future expansion. Owing to its reduced risk factors and potential for growth, the company stands out as an ideal choice for investors seeking equilibrium between stability and growth.

For investors in PEG, AbbVie presents a fascinating prospect, particularly if its latest pharmaceuticals can offset Humira's dwindling earnings. The emphasis of AbbVie on broadening its immunology and oncology offerings, coupled with merging Allergan's aesthetic and neuroscience divisions, indicates substantial potential for growth. Should AbbVie's research and development endeavors yield results, investors in PEG might witness significant gains as the firm's profits increase.

4.4. Investors in Index

Investors in index funds usually allocate their funds into ETFs or mutual funds that follow a wide-ranging market index, like the S&P 500. Investors like these places less emphasis on choosing individual stocks and concentrate more on becoming involved in the broader market or a particular

sector. Pharmaceutical firms such as AbbVie, Johnson & Johnson, and Pfizer find their presence in key indices appealing to index investors interested in the healthcare industry.

Johnson & Johnson stands as a pivotal asset for index investors in numerous healthcare-oriented ETFs and mutual funds, owing to its substantial size, stability, and steady performance. The varied business approach of J&J renders it a dependable factor in enhancing index results, especially when it comes to healthcare sector involvement.

Both Pfizer and AbbVie frequently appear in indices related to pharmaceuticals and healthcare. Each firm contributes to distinct pharmaceutical market sectors, Pfizer offering a wider range of drugs and vaccines, and AbbVie focusing on rapidly expanding fields such as immunology and oncology. Index investors find that maintaining these firms in a varied fund offers a well-rounded opportunity for exposure to the sector's expansion and revenue potential.

5. Tactical Insights and Suggestions

The discussion of financial analysis and investor inclinations has led to the revelation of various strategic perspectives for prospective pharmaceutical industry investors.

Investors focused on value ought to view AbbVie and Pfizer as prospective prospects. The appeal of AbbVie lies in its low Price-to-Earnings ratio and substantial Return on Equity, appealing to those skeptical about the market's underestimation of its long-term prospects. The reduced Price-to-Earnings ratio of Pfizer implies potential undervaluation, especially if its production line can sustain growth past the COVID-19 vaccine. Each of these firms offers a chance to exploit possible inaccuracies in market pricing.

Income investors favor Johnson & Johnson for its steady dividend distributions and robust cash flow production. The varied business approach and cautious debt handling of J&J offer the steadiness desired by income investors. AbbVie, known for its substantial dividend returns, holds allure, yet it's crucial for investors to vigilantly oversee the firm's dividend sustainability amidst Humira's patent expiry.

Investors in PEG ought to consider Pfizer and AbbVie for potential future expansion. The development of Pfizer's oncology and immunology lines presents considerable potential, especially with ongoing innovation and the introduction of new medications to the market. The strategic expansion of AbbVie's portfolio beyond Humira, along with incorporating Allergan, sets the stage for its growth, potentially validating its present market value.

It's advisable for index investors to keep their investments in Johnson & Johnson, Pfizer, and AbbVie via ETFs and mutual funds with a healthcare focus. These firms offer extensive involvement in the pharmaceutical industry, featuring J&J for stability and variety, Pfizer for expansion prospects, and AbbVie for promising fields such as immunology and oncology. Collectively, they constitute a harmonious strategy for immersing oneself in the healthcare sector via an indexed portfolio.

6. Conclusion

To sum up, AbbVie, Johnson & Johnson, and Pfizer each present distinct value propositions tailored for various investor categories. The potential for growth and robust Return on Equity (ROE) of AbbVie render it attractive to investors focused on value and PEG, whereas the steadiness and steady dividends of Johnson & Johnson draw in both income and index investors. The varied pipeline and post-COVID expansion tactics of Pfizer offer prospects for both PEG and value investors. Stakeholders can enhance their decision-making in the evolving pharmaceutical sector by comprehending financial metrics and harmonizing them with the tastes of investors.

Investing in the pharmaceutical industry remains profitable, especially as firms innovate and tackle worldwide health issues. Nonetheless, it's crucial for investors to stay alert to potential hazards like the expiration of patents, alterations in regulations, and the competitive dynamics arising from

biosimilars and generic drugs. Conducting an in-depth financial evaluation, coupled with a lucid grasp of investor goals, is crucial for maneuvering through this intricate yet lucrative market.

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