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## Security Update Report

### **Pfizer (PFE)**

Prepared by Andrew Jesaitis  
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#### **Recent Company Development**

Pfizer is the largest pharmaceutical company in the United States. It manufactures prescription drugs and healthcare products for both humans and animals.

Jeffery Kindler took over as CEO at Pfizer in July, 2006. He is a big proponent of corporate restructuring at the company, saying that he wants to remove layers of bureaucracy.

Additionally, Pfizer faces increased competition for its cholesterol reducing drug *Lipator* from the generic launch of *Zocor*. This generic competition may be exacerbated if Wal-Mart extends its \$4 generic drug plan to include cholesterol reducing drugs.

#### **Industry Information**

While one's first instinct when studying the pharmaceutical industry is to say that it has relatively inelastic demand, in reality this is not the case, especially with brand name drugs. Once an alternative drug becomes generic, the competing drugs lose much of their profitability. Thus the prescription drug manufacturers must depend on innovation to stay profitable.

#### **Security Information**

Ticker Symbol: PFE  
Exchange: NYSE  
52-Week Range: 20.27 - 28.51  
10-Day Average Trading Volume: 24,217,500  
Beta: 0.85

#### **Technical Analysis**

##### **Remarks:**

1. First Support does not kick in until 26.30 (7% below the current price)
2. The bearish fan pattern indicates that the current rally is losing steam
3. The MACD, RSI, ADX, and Arron Oscillator (not pictured) indicate the stock is overbought

4. The negative divergence in the RSI, MACD, and ADX indicates the rally has spent its fuel
5. The MACD histograms are below the zero line, which is bearish
6. If the ADX breaks the 40 level, chances are better than even that PFE will test its support
7. The previous bearish rounded top pattern may be beginning to be repeated and might weakly show that investor sentiment became more bearish in April 2006



## Financial Information

Earnings per Share: 1.48 (ttm)  
 Price/Earnings: 19.19 (ttm)

PEG: 3.13 (5 yr Expected)  
Price/Sales: 4.04 (ttm)  
Dividend Rate: 0.91 (ttm)  
Current Yield: 3.20% (ttm)

### **Company Analysis**

Quarterly Earnings Growth: -30.30% (yoy)  
Quarterly Revenue Growth: 2.50% (yoy)  
Profit Margin: 21.19%  
Return on Equity: 16.23%  
Return on Assets: 9.19%

### **Peer Analysis**

Pfizer is losing its grip on the drug marketplace. Although it has the largest market capitalization in the industry, it also has the highest PEG ratio in the industry. Additionally, its earnings are shrinking and has a historically high valuation.

### **Analyst Information**

Consensus earnings estimates: 0.45  
Growth Estimate: -8.2% (Industry: 4.3% next quarter)  
Consensus recommendations: Overweight

### **Evaluation**

Pfizer's fundamentals are weakening. The appointment of Kindler and his remarks have already been discounted in the share price. Wal-Mart's new prescription plan might enter into the price in the future and if nothing else at least will provide a perceived decrease in the profitability of the pharmaceuticals. This decrease in strength is also reflected in its technicals. Most technical indications show that PFE is overbought and that its current rally is losing momentum. Pfizer has been a profitable investment for WIC in the past, but it now appears that it has limited upside potential. Coupled with the risk in the overall market right now, Pfizer simply does not offer an acceptable risk/reward ratio.

### **Motion**

Sell 340 PFE at 28.00 or greater