

Pfizer Q1 profit up, but drugmaker cuts outlook

April 30 2013, by Linda A. Johnson



This Friday, March 2, 2012 file photo shows the exterior of Pfizer in Groton, Conn. Pfizer Inc. reports quarterly financial results before the market opens on Tuesday, April 30, 2013. (AP Photo/Elise Amendola)

Pfizer Inc.'s first-quarter net income rose 53 percent despite falling sales, mainly because the world's second-largest drugmaker took big charges a year ago. Pfizer's results fell short of Wall Street's expectations, and the company lowered its profit and sales forecasts for the year, blaming sudden worsening currency exchange rates.

Pfizer is struggling because generic competition is reducing revenue for two-thirds of its drugs, more than a dozen of which are former blockbusters that brought in \$1 billion annually or more. When drug patents expire, cheaper generic versions flood the market, and most patients switch to them.

The biggest hit has been copycat versions of Pfizer's cholesterol fighter Lipitor, which was the world's best-selling drug for nearly a decade until it lost exclusivity in the U.S. in 2011 and in much of Europe last year. Revenue of Lipitor, which once brought in about \$13 billion a year, dropped 55 percent to \$626 million in the first quarter.

Like other drugmakers, New York-based Pfizer has been cutting costs to boost profit, developing very-expensive drugs for rare disorders and expanding sales in emerging markets such as China. Pfizer also has been divesting assets other than its prescription drugs to repurchase shares and increase its dividend to appease shareholders.

"They're having trouble hitting their sales goals so they need to make up for it with financial moves, like buying back shares, that help prop up the stock price," Erik Gordon, an analyst and professor at University of Michigan's Ross School of Business, wrote in an email.

For the first quarter, Pfizer reported net income of \$2.75 billion, or 38 cents per share, down from \$1.79 billion, or 28 cents per share, a year earlier. Excluding one-time items, adjusted income was 54 cents per share, a penny less than the forecast of analysts surveyed by FactSet.

Results were boosted by a \$490 million gain from the transfer of some product rights to its joint venture in China. In the year-ago quarter, Pfizer took charges totaling \$1.66 billion, for litigation, acquisition and other costs.

Overall, revenue was \$13.5 billion, down 9 percent from \$14.89 billion a year earlier and below analysts' expectations of \$13.99 billion.

Besides the loss in revenue from some off-patent drugs, Pfizer had declines in revenue of some big sellers protected by patents, including erectile-dysfunction drug Viagra, which was down 7 percent at \$461 million.

Revenue of Prevnar 13, a vaccine for ear infections, meningitis and other pneumococcal infections, also fell 10 percent to \$846 million. Prevnar is the biggest-selling vaccine in history, with nearly \$4 billion in yearly revenue, but Pfizer blamed the vaccine's quarterly revenue drop on shifts in buying patterns in some countries.

The bright spots during the quarter were Lyrica, for fibromyalgia and other pain, up 12 percent at \$1.07 billion, and anti-inflammatory pain reliever Celebrex, up 3 percent at \$653 million.

In addition, revenue for the consumer health products, such as Centrum vitamins, jumped 12 percent to \$811 million. Revenue rose 5 percent to \$2.42 billion in emerging markets such as China—the key growth target for the industry as U.S. and European health programs try to hold down costs.

Going forward, Chief Financial Officer Frank D'Amelio said the steady weakening of the yen, euro and other currencies versus the dollar since January is expected to cut revenue by a whopping \$900 million over the course of the year. As a result, Pfizer cut its revenue forecast by that amount, to \$55.3 billion to \$57.3 billion.

Pfizer also reduced its profit forecast excluding one-time items by 6 cents to \$2.14 to \$2.24 per share due to the lower revenue forecast and its Feb. 6 initial public offering of about 20 percent of its animal health

business, now called Zoetis. Revenue and costs associated with Zoetis will still be included in Pfizer's results, but only the profit from the 80 percent Pfizer still owns will be included in its earnings-per-share figures.

Despite the forecast, Pfizer, which recently was dethroned after years as the world's top drugmaker by Switzerland's Novartis AG after selling off some of its businesses, is positioning itself for growth.

Pfizer recently launched two drugs that could become blockbusters—Xeljanz for rheumatoid arthritis and Eliquis for preventing strokes—and initial sales look promising, the company said. The company also is planning to soon begin ads targeting consumers.

Additionally, Pfizer recently jumped into the huge market for Type 2 diabetes medicines with a development partnership with longtime rival Merck & Co. And it's looking to become a major player in vaccines, testing a few against deadly staph and other infections.

That could be why after what they called the "earnings disappointment," analysts Judson Clark of Edward Jones and Timothy Anderson of Bernstein Research maintained their "buy" recommendations.

Meanwhile, CEO Ian Read struck a cautiously optimistic balance during a conference call with analysts on Tuesday.

"Within our pipeline, we have shown steady improvement in the quality of compounds and in the rate of advancement" from testing toward approval, he said.

The, Read added: "Our operating environment continues to be volatile."

Pfizer shares fell 3.8 percent, or \$1.17, to \$29.27 during afternoon

trading on Tuesday.

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Citation: Pfizer Q1 profit up, but drugmaker cuts outlook (2013, April 30) retrieved 23 April 2024 from <https://medicalxpress.com/news/2013-04-pfizer-q1-profit-drugmaker-outlook.html>

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