

Chapter-11

FINANCIAL PERFORMANCE EVALUATION OF BAYER AG AND PFIZER INC.: A COMPARATIVE RATIO ANALYSIS

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INTRODUCTION

The pharmaceutical industry has historical roots that trace back to the trial-and-error approach to treatment and cures based on ancestral knowledge. The scientific evolution, rooted in rationalism and experimental ideas from the 17th century, paved the way for the industrial revolution in the late 18th century, setting the stage for the establishment of the pharmaceutical industry in the 19th century [1]. The concept of human health gained prominence. Merck, now known as Merck & Co, originated in Germany and was one of the early companies dedicated to advancing human health. Founded as a drugstore in 1668, under Heinrich Emanuel Merck, it transitioned towards manufacturing and played a pivotal role in the industrial and retailing of alkaloids. Similarly, GSK has its origins in 1715 when its founder, Beecham, became involved in the industrial production of prescriptions. It began creating patent remedies in 1842 and became the world's first workplace exclusively producing drugs in 1859. In the course of these changes, the United States underwent notable advancements. In 1849, Pfizer was established by two German immigrant siblings, commencing operations primarily in the realm of fine chemicals. Subsequently, following the conclusion of the American Civil War, their enterprise underwent expansion due to a surge in the demand for sedatives and disinfectants [2,3].

RESEARCH OBJECTIVES

To evaluate and compare the selected pharmaceutical firms throughout the two financial years (2015 and 2016).

RESEARCH METHODOLOGY

The research was exploratory, utilizing a combination of quantitative and descriptive methodologies. The selection of pharmaceutical companies involved the use of convenient sampling techniques, targeting companies ranked among the top 5 globally in terms of revenue. The study spanned three months, from February 6, 2017, to May 5, 2017. The study utilized the following data collection tools to derive key information for calculating financial ratios for fiscal

years 2015 and 2016 for the selected pharmaceutical firms: Balance sheet, Income statement, and Cash Flow. Secondary data were obtained from various sources, including annual reports, 10-K filings, company websites, the internet, and confidential sources.

RESULTS & DISCUSSION

Pfizer Inc. has stood firm since its inception, consistently outperforming many competitors, and maintaining a leading position in its industry. Pfizer's price-to-book ratio appeared lower than that of Bayer AG. However, the market anticipated significant growth from Pfizer and expected it to sustain the current growth trajectory. Pfizer utilized relatively high amounts of assets while generating relatively lower turnover margins, indicating that this practice might pose challenges for the business in the near future. There were indications of an imminent change in the corporation's annual trends, potentially involving compensation. Pfizer's return on assets declined over the past year and fell below Bayer's. Despite Pfizer's recent accelerated growth in returns, the stock was attributed a higher price-earnings ratio compared to Bayer by the market, indicating certain uncertainties about the company's long-term strategy. The relatively modest level of capital investment and below-average returns on capital compared to peers suggested that Pfizer was operating in a maintenance mode. Pfizer possessed the financial and operational capability to quickly secure loans.

CONCLUSION

Following the research, it was established that Bayer AG, the pharmaceutical company based in Germany, demonstrated enhanced performance over the year. While it had shown suboptimal performance in the fiscal year 2015, there was a notable improvement in several aspects from 2015 to 2016, attributable to shifts in the capital market. Notably, improvements were observed in profitability, liquidity, asset management, and debt ratio. However, there is still room for making an impact on market value ratios.

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