

110620

## Reformulated Income Statement

Net sales		14,133	
Cost of sales		2,528	
Gross profit		11,605	
Alliance revenue		2,071	
Gross profit		13,676	
Selling, informational and administrative expenses		6,351	
Research and development expenses		2,776	
Minority interests		5	
Other deductions--net 101 - 236 + 301		166	
Operating Income	=	4,378	OI
Interest Income		301	
Earnings before Interest and Taxes		4,679	EBIT
Interest Expense		236	
Income before taxes		4,443	
Taxes on Income	<u>28.0%</u>	1,244	
Income from continuing operations		3,199	NI

## Reformulated Balance Sheet

### Assets

Cash and cash equivalents	739	1,552	
Accounts receivable, less allowance for	3,864	2,914	
Total inventories	1,654	1,828	
Prepaid expenses and taxes	958	1,110	
Property, plant and equipment, less accumulated depreciation	5,343	4,415	
Goodwill, less accumulated amortization	763	813	
Other assets, deferred taxes and deferred income taxes	1,556	1,387	
<b>Operating Assets</b>	14,877	14,019	OA
Short-term investments	3,703	2,377	
Short-term loans	273	150	
Long-term loans and investments	1,721	1,756	
<b>Financial Assets</b>	5,697	4,283	FA
<b>Total Assets</b>	<b>\$ 20,574</b>	<b>18,302</b>	

**Liabilities**

Accounts payable	951	971
Dividends payable	349	285
Income taxes payable	869	1,162
Accrued compensation and related items	669	614
Other current liabilities	1,346	1,431
Postretirement benefit obligation other than pension p.	346	359
Deferred taxes on income	301	197
Other noncurrent liabilities	1,330	1,217
<b>Operating liabilities</b>	<b>6,161</b>	<b>6,236</b>

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Short-term borrowings, including current portion of lo	5,001	2,729
Long-term debt	525	527
<b>Debt</b>	<b>5,526</b>	<b>3,256</b>

Common stock, \$.05 par value; 9,000 shares authorized	213	210
Additional paid-in capital	5,416	5,506
Retained earnings	13,396	11,439
Accumulated other comprehensive expense	(399)	(234)
Employee benefit trusts	(2,888)	(4,200)
Treasury stock, at cost	(6,851)	(3,911)
<b>Equity</b>	<b>8,887</b>	<b>8,810</b>

<b>Total liabilities and shareholders' equity</b>	<b>20,574</b>	<b>18,302</b>
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**Summary Balance Sheet**

	<b>1999</b>	<b>1998</b>	<b>Average</b>
Operating Assets	14,877	14,019	14,448
Financial Assets	5,697	4,283	4,990
Total Assets <i>a</i>	20,574	18,302	19,438
Operating liabilities <i>b</i>	6,161	6,236	6,199
Debt	5,526	3,256	4,391
Equity	8,887	8,810	8,849
Total capital <i>a-b</i>	14,413	12,066	13,240

### Long-Term Debt and Solvency Analysis

Leverage			
Assets ÷ Equity = 19438 ÷ 8849		2.1966	
Financial Leverage			FLEV
Debt ÷ Equity = 4391 ÷ 8849		0.4962	
Op Liability Leverage			OLLev
Operating liabilities ÷ Total Capital = 6199 ÷ 13240		0.4682	e
Times Interest Earned			
EBIT ÷ Interest expense = 4679 ÷ 236		19.8263	
Assets Turnover			ATO
Sales ÷ Assets = 16204 ÷ 19438		0.8336	

### Profitability Analysis

Gross Margin %	11,605 ÷ 14,133		82.11%
Operating Margin	Operating income ÷ Sales		
	4,378 ÷ 16,204		27.02%
Profit Margin	Net income ÷ Sales		
	3,199 ÷ 16,204		19.74%
Margin before Interest & Taxes	EBIT ÷ Sales		
	4,679 ÷ 16,204	MBIT	28.88%
ROA	EBIT • (1-tax) ÷ Assets		
	4679 • 0.72 ÷ 19,438		17.33%
ROTC	EBIT • (1-tax) ÷ Total Capital		
	4679 • 0.72 ÷ 13,240		25.44%
ROE	Net Income ÷ Equity		
	3,199 ÷ 8,849		36.15%

Exhibit 4-12. Disaggregations of Pretax ROA and ROE

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Interest on Assets  $236 \div 14,448 = 1.63\%$

A. Return on Assets

MBIT	x	ATO	=	#REF!	-	Interest on Assets	=	
28.88%	x	0.8336	=	24.07%	-	1.63%	=	↘ Continued below

B. Return on Equity

						ROA [Post interest pretax]	x	Leverage	=	#REF!
						22.44%	x	2.197	=	49.29%

↘ Continued from above

Exhibit 4-14. Disaggregations of ROE (after tax)

A. Three Component Disaggregation

Profit Margin	x	Total Assets Turnover	=	Net Income / Total Assets	x	Leverage	=	ROE		
19.74%	x	0.834	=	16.46%	x	2.197	=	36.15%		

B. Five Component Disaggregation

Net Income / EBT	x	EBT/ EBIT	x	MBIT	=	Profit Margin				
0.720	x	0.9496	x	28.88%	=	19.74%				↘ Continued above

Disaggregations of ROE and its relationship to ROTC and ROA (page 142)

Interest Rate  $236 \div 4,391 = 5.37\%$   
 After Tax Interest Rate  $5.37\% \times 72.00\% = 3.87\%$  Int Rate AT

ROA	+	[	ROA	]	x	OLLev	=	ROTC
17.33%	+	[	17.33%	]	x	0.468	=	25.45%

ROTC	+	[	ROTC	-	Int Rate AT	]	x	FLEV	=	ROE
25.45%	+	[	25.45%	-	3.87%	]	x	0.496	=	36.15%

Disaggregations of ROA into basic components (Exh 4-13)

MBIT  $\times$  ATO  $\times$  (1-tax) = ROA  
 28.88%  $\times$  0.8336 = 24.07%  $\times$  72.00% = 17.33%

## Adjstut for financial Assets

Net Debt	= Debt - Financial Assets = 4391 - 4990	=	(599)
Total capital, Net	= Equity + Net Debt = 8849 -599	=	8,250
Net Interest Expense			
	= Interest Expense - Interest Income = 236 - 301	=	(65)

- Information on minority interests is not given in the balance sheet in 10K of Pfizer.

Financial Leverage, Net		FLev,Net
Net Debt ÷ Equity = -599 ÷ 8849	(0.0677)	
Op Liability Leverage, Net		OLLev,Net
Operating liabilities ÷ Total capital, Net = 6199 ÷ 8250	0.7514	
Assets Turnover, Net		ATO, Net
Sales ÷ Opearting Assets = 16204 ÷ 14448	1.1215	

Profit Margin before Interest & Taxes	OI ÷ Sales		PM
	4,378 ÷ 16,204		27.02%
NOPAT	OI x (1-tax)		
	4,378 x 72.00% = 3,152		
NOPAT	Net Income + Net Inter. Exp. x (1-tax)		
	3,199 + (65) x 72.00% = 3,152		
ROOA	NOPAT ÷ Average Operating Assets		
	3,152 ÷ 14,448		21.82%
ROTC Net	NOPAT ÷ Total capital, Net		
	3,152 ÷ 8,250		38.21%

Net Interest rate	(65) ÷ (599)	=	10.85%
After Tax Net Interest Rate	10.85% x 72.00%	=	7.81%

ROOA	+ [	ROOA	]	x	OLLev,Net	=	ROTC Net
21.82%	+ [	21.82%	]	x	0.751	=	38.21%

ROTC Net	+ [	ROTC Net	-	Int Rate	]	x	FLev,Net	=	ROE
38.21%	+ [	38.21%	-	7.81%	]	x	(0.068)	=	36.15%

PM	x	ATO, Net	=	30.30%	x	(1-tax)	=	ROOA
27.02%	x	1.1215	=	30.30%	x	72.00%	=	21.82%